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2 MANITOBA PUBLIC UTILITIES BOARD
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6 Re: MANITOBA HYDRO
7 2004 GENERAL RATE APPLICATION
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9
10 Before Board Panel:
11 Graham Lane - Board Chairman
12 Lens Evans - Board Member
13 Robert Mayer - Board Member
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17 HELD AT:
18 Public Utilities Board
19 400, 330 Portage Avenue
20 Winnipeg, Manitoba
21 June 21st, 2004
22 Volume IV
23 Pages 620 to 821
24
25

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1 --- Upon commencing at 9:00 a.m.

2

3 THE CHAIRPERSON: Good morning everyone,
4 welcome back. I hope everyone had a bit of a break over the
5 weekend and enjoyed fighting off Winnipeg's mosquitos.

6 When we left off Mr. Peters was engaged in a
7 line of inquiry related to Manitoba's Hydro's acquisition of
8 Winnipeg Hydro and it may be useful to clarify the Board's
9 interest in this matter.

10 Before I do that, Ms. Ramage has passed out
11 Undertaking 17 related directly to this topic. I believe we
12 can record that as Exhibit Number Manitoba Hydro 22. Twenty-
13 three (23)? I think it's twenty-two (22).

14 MS. PATTI RAMAGE: Mr. Chair, I have in my
15 notes Exhibit 22 was Manitoba Hydro Undertaking 16 which is
16 the forecast of Lake Winnipeg Monthly Inflows which I don't
17 think was given a actual name other than Undertaking 16 last
18 Friday, hence that might be the confusion.

19 But then I would suggest Number 17 which
20 relates to Winnipeg Hydro be assigned Exhibit Number 23.

21 THE CHAIRPERSON: Okay, let the record show
22 that. So this is Exhibit 23, the water flows is Exhibit 22
23 which was Undertaking 16.

24

25 --- EXHIBIT NO. MH-22: Response to Undertaking 16.

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2 --- EXHIBIT NO. MH-23: Response to Undertaking 17.

3

4 THE CHAIRPERSON: Back to clarifying the
5 Board's interest in the matter of the acquisition of Winnipeg
6 Hydro, Manitoba Hydro made the decision to acquire Winnipeg
7 Hydro and the Board was not asked by government to review the
8 acquisition before it was so made.

9 However, when the legislature provided
10 Manitoba Hydro the go ahead to purchase Winnipeg Hydro it did
11 not say that the expectations for and consequences of the
12 arrangement were never to be evaluated. All of Hydro's
13 actions impact on its revenue requirement and Hydro's rates
14 are subject to the Board's review.

15 So whether they be investments in computer
16 systems and personnel or, as in this case, the acquisition of
17 an energy company, the Board has an interest, all be it, in
18 this case, after the fact.

19 The division of responsibility leaves the onus
20 for the purchase decision with Manitoba Hydro and its
21 shareholder, the government, with the Board assigned a
22 mandate with respect to revenue requirement and rates.

23 Plant and customers were acquired by the
24 acquisition along with a number of significant commitments,
25 debt, payment stream to the City, DSM guarantee and a

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1 downtown headquarters being major ones.

2 The acquisition cements and extends the
3 monopoly enjoyed by Manitoba Hydro and allows it the
4 opportunity to achieve synergies, directly access and control
5 generating stations and pursue its mandate for ninety-four
6 thousand (94,000) Winnipeg ratepayers that were previously
7 outside the system.

8 The Board has no interest in replaying the
9 purchase negotiations. What is, is. What has been done
10 cannot be unwound, even if there was a desire to do so and no
11 such desire has been expressed.

12 The parties to the agreement express their
13 view that there was value to the buyer and the seller and
14 signified that by the agreement to purchase which Hydro
15 implemented some facets of it are still underway.

16 The Board's interest in the acquisitions
17 conditions and aftermath relates to its purview over revenue
18 requirement and rate schedules and its public interest
19 mandate, to meet these obligations and provide the public
20 forum for ratepayers for which the Board was created.

21 The Board has a responsibility to review the
22 economic aspects of the arrangement. It has a responsibility
23 to review the implementation of the acquisition, insomuch as
24 both the details of the acquisition and how things are
25 unfolding, impact current and future ratepayers, both with

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1 respect to rates and the Corporation's revenue requirements.
2 The Board would ignore its responsibilities if
3 it didn't seek to understand and evaluate the actions of the
4 Corporation and the implications of such actions for
5 ratepayers. And it doesn't matter who initiated the actions,
6 whether it be Government or the Corporation.

7 In undertaking a modest review of the
8 transaction after the fact, such as permitted by our
9 resources and mandate, the Board is neither challenging the
10 authority of those who took the action nor establishing a
11 case for amending the terms of the transaction.

12 Our review, cursory as it may be, is with the
13 objective of meeting the public interest. Hopefully what we
14 will find will confirm the Corporation's view that overall
15 the acquisition generates no net rate pressure for pre-
16 acquisition ratepayers. If it doesn't, the impact is that we
17 need to take the difference into account.

18 Presumably there are benefits for both with
19 pre Winnipeg Hydro acquisition ratepayers and all ratepayers,
20 post acquisition.

21 Before I ask Mr. Peters if he has any further
22 questions at this time or wishes to turn matters over to the
23 Intervenors, I raise a more difficult issue. In April 2000
24 -- in the April 2004 edition of the Fan, and internal
25 newsletter of Manitoba Hydro, an inference is made that the

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1 PUB worsened Manitoba Hydro's financial woes, by ordering
2 rate decreases in some customer classes.

3 The brief report goes on to opine that the
4 actions are more predictable than the weather.

5 From Hydro's perspective, which is perhaps
6 understandable, given the recent experience with weather and
7 drought, so there may be something in the latter comment,
8 though we would like to think that given all the facts and a
9 good understanding of Hydro's situation and prospects, the
10 outcome of our work is far more predictable than the weather.

11 After all, everyone in the process is
12 committed to value to the ratepayers and the economic health
13 of the Corporation that serves them. Criticism of the Board,
14 justified or not, comes with the territory, and is to be
15 expected.

16 The problem for the Board is that the
17 criticism comes from the primary party expected to support
18 and assist the Board's mandate and fails by not providing
19 context to the action of the Board that led to the criticism.

20 If the Corporation finds it necessary to
21 criticize the decision of the Board, we appreciate that it
22 was done here, so that a fair and more balanced assessment of
23 the circumstances leading to it could be made.

24 In the Board's view, a more balanced report
25 would include the fact that in the current Rate Application,

1 the Corporation proposes smaller rate increases to the
2 customer classes that receive the rate decreases, criticized
3 by the Corporation than the Corporation proposes for other
4 customer classes.

5 In short, the Corporation doesn't seek to roll
6 back the relative advantage provided to the customer classes
7 affected by the Corporation criticized Board Order, but to
8 advance those advantages relative to the others further, by
9 processing lower rates of increase in both years.

10 In saying this, I focus on an apparent
11 contradiction to the Corporation's criticism of the Board, in
12 the current rate proposal. If the Corporation feels the
13 Board should not have ordered the reductions, and since the
14 Corporation is not confident the drought is over and the
15 damage to its balance sheet repaired, why would it seek a
16 lower rate of increase for those classes.

17 By so doing, has not the Corporation confirmed
18 of you the classes in question are overcharged, relative to
19 the other classes, and that the relative overcharge should be
20 lessened.

21 And as the Corporation is aware, when the
22 Board reached it's initial decision in respect of the small
23 rate decreases it ordered, he had no knowledge of the
24 materiality of the losses the Corporation was sustaining.

25 In fact, what the Board had before it was

1 early projections by the Corporation of positive results,
2 those following positive results stretching back some years.

3 The Board considered itself bound by its rules
4 to confirm its order, but this later when it was asked to
5 reconsider, in short the absence of information in the first
6 situation could be reviewed by some as critical, and that
7 absence is fully the responsibility of the Corporation.

8 Leaving these details aside, my first
9 inclination was to ignore the newsletter, but the
10 contradiction raises some interesting thoughts, in the
11 distribution of the newsletter, initial and secondary was
12 wide, reflecting unfairly on the Board outside of this
13 process, while this process is under way.

14 We don't find such comments to either be in
15 the public interest, or fair to the process that we are all
16 pledged to respect. So I mention this matter to provide
17 guidance for the future.

18 In saying this, we understand the pressures
19 that are on the Corporation and the natural desire of
20 organizations to control outcomes and even environment as

21 best as possible.
22 In our view, the best way to do this is by
23 answering the Board's inquiries, presenting information
24 relative to the interests of the ratepayers and this process
25 and cooperating fully in the efforts to inform this Panel

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1 sufficiently to allow it to meet its mandate.
2 Now, I would like to put all this behind us
3 and move on. Firstly, we have a civic election tomorrow in
4 Winnipeg and we were thinking that we would shut -- adjourn
5 this process tomorrow at three o'clock and have a shorter
6 lunch hour, basically one hour, break at 12:00 and come back
7 at 1:00 to try and make up a little bit of it.
8 And, finally, I have to regretfully note that
9 Mr. Barron is not with us today as a result of his brother's
10 death. I'm sure I speak for all of us in expressing sympathy
11 for Mr. Barron and his family. Mr. Singh will be acting
12 secretary for, at least, today. Mr. Peters...?
13 MR. ROBERT MAYER: Mr. Chair, back on those
14 exhibit issues, Ms. Ramage, I'm looking at the transcript and
15 exhibit -- or Undertaking 16 indicates it's the Deloitte
16 Touche study on risk management.
17 THE CHAIRPERSON: We'll sort this out after
18 the break and we'll clear it all up unless --
19 MS. PATTI RAMAGE: I was just advised that
20 the undertaking listed in the transcript is -- is incorrect
21 but I'd like to understand that comment perhaps before we go
22 any further.
23 MR. ROBERT MAYER: I don't keep real good
24 track of it. I did note, however, when you mentioned it
25 earlier so I thought I'd look.

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1 THE CHAIRPERSON: We'll clear it up, Ms.
2 Ramage, and we'll advise the group after we have our break.
3 Mr. Peters...?
4 MR. BOB PETERS: Thank you. Good morning,
5 Mr. Chairman and Board Members, ladies and gentlemen. Mr.
6 Chairman, in light of your comments this morning, I would
7 like to go back and ask some additional questions to gain a
8 better understanding of the Winnipeg Hydro acquisition
9 impacts as well as additional questions on the balance sheet
10 which I concluded on last week.
11
12 MANITOBA HYDRO PANEL, Resumed;
13
14 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:
15 MR. BOB PETERS: In starting, Mr. Warden, I

16 take it you were providing what we have marked this morning,
17 we think correctly, as Exhibit MH-23 an analysis by Manitoba
18 Hydro to show, over the long run, there's a bottom line
19 neutral impact on Manitoba Hydro's ratepayers as a result of
20 the acquisition of Winnipeg Hydro?

21 MR. VINCE WARDEN: Yes, Mr. Peters. I
22 wouldn't quite label it "analysis". There was a -- a lot of
23 analysis that went on during negotiations for the acquisition
24 of Winnipeg Hydro and I -- I certainly understand the
25 comments made by the Chair and yourself earlier that this

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1 Board does require some level of comfort that the acquisition
2 does not have a negative impact on ratepayers of Manitoba
3 Hydro.

4 So this undertaking was put together as --
5 this exhibit was put together as a high level demonstration
6 that the -- the acquisition was essentially bottom line
7 neutral and that's what it's intended to serve here and
8 that's why we've underlined "for illustrative purposes only".

9 MR. BOB PETERS: When I look at the numbers on
10 Manitoba Hydro Exhibit 23, Mr. Warden, some of those numbers
11 will be different than the numbers that we talked about last
12 week; would that be correct?

13 MR. VINCE WARDEN: Well, yes. These numbers
14 are annualized numbers that we were looking at that were
15 referenced in the annual report, the 2002/03 Annual Report of
16 Manitoba Hydro were for the part year only.

17 MR. BOB PETERS: So just briefly then on
18 Exhibit 23, what this high level example or illustration is
19 to provide is that, on average, you have to pay \$18 million a
20 year to the City of Winnipeg for the assets you purchased?

21 MR. VINCE WARDEN: That's correct. Yes.

22 MR. BOB PETERS: And, in addition, having
23 purchased the assets, you will receive, you say, \$126 million
24 of revenue; is that annualized?

25 MR. VINCE WARDEN: Yes, that's the

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1 approximate annual revenue of Winnipeg Hydro prior to the --
2 prior to the acquisition.

3 MR. BOB PETERS: And why do you deduct the
4 wholesale revenues that were previously earned?

5 MR. VINCE WARDEN: These were revenues that
6 Manitoba Hydro previously earned on a wholesale basis from
7 Winnipeg Hydro. So, we're not -- it would be incorrect to
8 take the total amount of revenues and net -- the net revenues
9 that we realize from the acquisition are \$79 million per
10 year.

11 MR. BOB PETERS: And so the net revenues, say
12 \$79 - \$80 million of -- this would be additional revenues to
13 your bottom line?
14 MR. VINCE WARDEN: Yes, that's right.
15 MR. BOB PETERS: And from that you then have
16 to address the expenses and you've indicated a number of
17 those expenses on Exhibit 23?
18 MR. VINCE WARDEN: Correct.
19 MR. BOB PETERS: Do these expenses include
20 the financing costs related to the payments made to the City
21 of Winnipeg?
22 MR. VINCE WARDEN: Yes, I do.
23 MR. BOB PETERS: Where are they?
24 MR. VINCE WARDEN: Well, they're -- the inter
25 -- actually there -- there is no financing costs per say.

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1 The -- the interest on the assumed debt of \$12 million is the
2 \$186 million of debt that we talked about last week.
3 The financing costs, because there -- the cash
4 in essentially equals the cash out, there's really no
5 financing costs associated with the payment.
6 MR. BOB PETERS: As I understood, payments,
7 one (1) of which would \$25 million a year in your fiscal
8 2003.
9 MR. VINCE WARDEN: Yes, \$25 million for the
10 first five (5) years, dropping to \$20 million and then
11 sixteen (16) the year after.
12 MR. BOB PETERS: And that \$25 million payment
13 would be -- would be made as a result of Manitoba Hydro
14 borrowing the \$25 million to pay to the City of Winnipeg?
15 MR. VINCE WARDEN: Well, no, as I indicated,
16 the additional revenues that are coming in from Winnipeg
17 Hydro ratepayers are sufficient to cover the -- the payments.
18 So there's no real cash borrowing required.
19 MR. BOB PETERS: Can you show me that on the
20 schedule, Manitoba Hydro Exhibit 23, Mr. Warden?
21 MR. VINCE WARDEN: Well, yes, that is the
22 revenue section. Those are collections that we'll make from
23 the new customers in the central portion of the City of
24 Winnipeg that we didn't have before. So those are revenues
25 that were not available to Manitoba Hydro previously.

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1 MR. BOB PETERS: Just so I'm clear then,
2 you've used 18 million dollars as the top line indicating
3 annual payments, but in fact the first annual payment was 25
4 million. Correct?
5 MR. VINCE WARDEN: Yes and again this was

6 done for illustrative purposes. I wanted to show that over
7 the period of -- of time. So this isn't any one (1) year in
8 particular, but over a period of time the \$18 million is
9 equivalent to the -- that payment stream as indicated on the
10 -- on the Exhibit.

11 MR. BOB PETERS: What you're telling the
12 Board is that the top line on Exhibit -- Manitoba Hydro 23,
13 equals the bottom line on Hydro Exhibit 23, and therefore
14 over the long term, it's revenue neutral?

15 MR. VINCE WARDEN: Yes and that's been our
16 position all along, it's revenue neutral to Manitoba Hydro.

17 MR. BOB PETERS: Right.

18 MR. VINCE WARDEN: Or bottom line neutral.

19 MR. BOB PETERS: Would you agree with me, Mr.
20 Warden, that in the early years at least, Manitoba Hydro
21 would need to recover approximately \$25 million of additional
22 revenues to be actually revenue neutral?

23 MR. VINCE WARDEN: Well, yes, that's true
24 obviously the \$25 million payment is different from the
25 eighteen (18), but the sixteen (16) is different from the

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1 eighteen (18). So we have, you know, an imbalance that
2 occurs over that period time. But ultimately will be, you
3 know, making a payment of sixteen (16), whereas the annual
4 amount is eighteen (18).

5 So, again, for illustrative purposes only,
6 it's only to give the Board the comfort level this is --
7 we're not intended -- intending in anyway to go through the
8 negotiations that took place for acquisition.

9 MR. BOB PETERS: I think from your answer
10 you're telling me that in the -- in the long term, you expect
11 Manitoba Hydro Exhibit 23 to reflect the reality?

12 MR. VINCE WARDEN: Well, in the -- I -- the
13 long term, it's a relatively short period of time we're
14 talking here. We're already, you know, into the third year
15 of the acquisition. So, long term, I guess it's a relative
16 term but -- yes, essentially knowing that on Manitoba Hydro
17 ratepayers, over whatever term you're looking at.

18 MR. ROBERT MAYER: Well, Mr. Warden, that's
19 the question I had. What -- what number of years did you
20 average out to get the number of 18 million as the average
21 payment?

22 MR. VINCE WARDEN: Well, forever. And --

23 MR. ROBERT MAYER: Forever --

24 MR. VINCE WARDEN: But this payment goes on
25 for all -- for ever more.

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1 MR. ROBERT MAYER: But, Mr. Warden, if you
2 assumed a hundred (100) years, one (1) would expect that it
3 would be a lot closer to 16 million, than it was to 18
4 million. So what period of time did you take into account to
5 arrive at an average of 18 million?

6 MR. VINCE WARDEN: Well, you can look at a
7 hundred (100) years if you like. The arithmetic would work
8 out to be, if you took the present value of the stream was
9 \$25 million for five (5) years, \$20 million for four (4)
10 years and \$16 million for the balance of that hundred (100)
11 year period and compared it to 18 million over a hundred
12 (100) years, you would come to approximately the same number.

13
14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: And in your answer then, Mr.
16 Warden, in the long run you expect Manitoba Hydro Exhibit 23
17 to reflect the situation but in the shorter term you'd
18 acknowledge that there would be some -- some imbalance?

19 MR. VINCE WARDEN: Well, you can see that
20 there's an amount of two (2) under "other" that really, in
21 this analysis or in this illustration isn't accounted for.
22 Water rentals, because of the year we've just been through it
23 will be lower than the \$4 million.

24 So, for each one of these there's pluses and
25 minuses that if you looked at any one (1) year in particular

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1 maybe plus or minus one (1) or two (2). But, again, the
2 purpose of this is to illustrate that over the -- any
3 particular period of time the impact is essentially bottom
4 line neutral.

5

6 (BRIEF PAUSE)

7

8 MR. BOB PETERS: And Mr. Warden, the
9 "interest on assumed debt" line on Exhibit 23, Manitoba Hydro
10 Exhibit 23, that is the assumed interest on the \$186 million
11 that was assumed by Manitoba Hydro in the transaction?

12 MR. VINCE WARDEN: Yes, that's correct.

13 MS. LYN WRAY: I'd just like to -- to add the
14 comment that although the initial years show \$25 million;
15 that's \$25 million cash. It's not the amount that would be
16 charged to revenue requirements; that would be a lesser
17 amount which is closer to, in fact probably a bit less than,
18 the 18 million referenced in the exhibit.

19 MR. BOB PETERS: Why is that, Ms. Wray?

20 MS. LYN WRAY: Because when you're taking a
21 present value over a period of time there is a notional
22 amount of principal that has to be retired and the amount
23 that would be charged to revenue requirements would be only a
24 portion of that principal and the rest would be interest.

25 MR. BOB PETERS: All right. Ms. Wray and Mr.

1 Warden, these numbers that you've put in Manitoba Hydro
2 Exhibit 23 didn't come out of the IFF did they?
3 MR. VINCE WARDEN: No, they did not.
4 MR. BOB PETERS: Where did they come from?
5 MR. VINCE WARDEN: Well, they were put
6 together for this purpose only; that is, they were -- they
7 were put together to illustrate for the Board the neutrality
8 of the transaction. So there were -- having said that, if
9 you compare it back to the IFF, to compare the IFF before and
10 after the transaction, the same impact -- you get the same
11 impact.

12 And I believe where in response to a CAC IR,
13 and we'll get the reference for you, that we did just that.
14 We compared an IFF before the acquisition to one after and
15 showed the neutrality of the -- of the acquisition.

16 MR. BOB PETERS: It might be CAC/MSOS/MH-I-76
17 to which you're referring, Mr. Warden, and perhaps your
18 colleagues can-- can turn that up.

19
20 (BRIEF PAUSE)

21
22 THE CHAIRPERSON: Mr. Warden, our
23 understanding here is that this chart you've put together is
24 purely illustrative and what it shows, in a sense -- in a
25 material sense that it's the Corporation's position the

1 transaction is basically revenue neutral and we can play with
2 numbers here and there and they'll work.

3 Your basic argument is at the end of the day
4 the effect on the pre-existing ratepayers is they've just
5 sort of been -- the new ones have been, sort of, blended in
6 on the same basis as the old ones?

7 MR. VINCE WARDEN: Yes, that's correct.

8 MR. BOB PETERS: Thank you.

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: The IFF scenario analysis
12 done at CAC/MSOS/MH-I-76A was a comparison of no Winnipeg
13 Hydro with inclusion of Winnipeg Hydro; is that correct?

14 MS. LYN WRAY: Yes. And it's on the basis of
15 IFF 02 because that was the one that was current at the time
16 of the acquisition.

17 MR. BOB PETERS: While you have that, Ms.
18 Wray, would you be able to file the balance sheet attached
19 with that analysis as well as the cash flow statement for the
20 same analysis?

21 MS. LYN WRAY: Yes, we can do that.

22 MR. BOB PETERS: Yeah, it didn't appear in my
23 copy of the Interrogatory. And, Ms. Wray, you say that you

24 compared that purchase of Winnipeg Hydro to no purchase of
25 Winnipeg Hydro with IFF Manitoba Hydro 02-1 because that was

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1 the most current one at the time you were doing your work?

2 MS. LYN WRAY: Yeah, to have a base case that
3 was in effect at the time was the only way we could go
4 because now time has elapsed and we can't say what -- how
5 things would have evolved without Winnipeg Hydro.

6 This is actually the analysis that would have
7 been type of analysis that we did at the time.

8 MR. BOB PETERS: Mr. Wray, could you also
9 file the same analysis and the same schedules but using IFF
10 Manitoba Hydro 03-1 at this point?

11 MS. LYN WRAY: No, that was the point I was
12 trying to make that we would then have to try and speculate
13 as to how things would have evolved had we not purchased
14 Manitoba Hydro -- sorry Winnipeg Hydro and we don't have a
15 means of doing that.

16 MR. BOB PETERS: Could you give the Board an
17 example as to what you would have to speculate on to -- to
18 make IFF 03-1 work in this analysis?

19 MS. LYN WRAY: Well, one of the things is the
20 -- the prediction of what our cost sharing arrangements would
21 have been with Winnipeg Hydro under IFF 03 conditions. We
22 used to have a sub-model to our forecast that calculated what
23 the wholesale price would have been that they would have paid
24 to us and it's fairly complex.

25 And, frankly, we've done away with that model

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1 now and it would take a fair bit of work to -- to recreate
2 those calculations. They were always somewhat approximate, I
3 should say as well.

4 MR. BOB PETERS: Ms. Wray, could you then
5 file the difference between CAC/MSOS/MH-I-76 answer and
6 Manitoba Hydro's IFF 02-1 found in Volume II Appendix 4.2?

7 MS. LYN WRAY: Yes, you mean a series of
8 differences on line items?

9 MR. BOB PETERS: Yes.

10 MS. LYN WRAY: Yes.

11 MR. BOB PETERS: All right. I'll take that
12 as an undertaking then if your counsel concurs.

13 MS. PATTI RAMAGE: I was writing some notes,
14 so if I could get that undertaking again?

15 MR. BOB PETERS: What I believe Ms. Wray and
16 I were in agreement on and was subject to your concurrence,
17 Ms. Ramage, is that the difference between the IFF filed in
18 response to CAC/MSOS/MH-I-76 and Manitoba Hydro IFF 02-1

19 which was found in Volume II, Appendix 4.2 would be filed by
20 Ms. Wray to show the differences in the various items.
21
22 --- UNDERTAKING NO. 18: To show the difference between
23 the IFF filed in response to
24 CAC/MSOS/MH-I-76 and Manitoba
25 Hydro IFF 02-1 found in Volume

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1 II, Appendix 4.2.
2
3 CONTINUED BY MR. BOB PETERS:
4 MR. BOB PETERS: And, Mr. Warden, this may
5 just be a function of being Monday morning, but I had assumed
6 that every year you pay \$25 million, another 25 million,
7 another twenty-five (25) that you would be taking on
8 additional debt to do that and you're suggesting that you're
9 not doing that?
10 MR. VINCE WARDEN: We're not doing that.
11 MR. BOB PETERS: And where does the money
12 come from then?
13 MR. VINCE WARDEN: From the former Winnipeg
14 Hydro ratepayers.
15 MR. BOB PETERS: I'm not sure you agreed with
16 me, sir, but in your Manitoba Hydro Exhibit 23, and I
17 appreciate the Chairman's clarification of being for
18 illustrative purposes, that analysis doesn't work on Manitoba
19 Hydro Exhibit 23 because your bottom line net revenues was
20 only \$18 million; do you agree with that?
21 MR. VINCE WARDEN: Well, yes, and I think we
22 went through that discussion. There's a difference between
23 the eighteen (18) and the twenty-five (25) but there -- if
24 you look at any one (1) particular year and went through some
25 of the items and show where there were differences it would

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1 add to that eighteen (18).
2 So this was intended to be over the term of
3 the agreement.
4 MR. BOB PETERS: And just to catch a couple
5 of smaller points on the terms of the agreement, Mr. Warden,
6 there was supposed to be revenue enhancements as a result of
7 the purchase of Winnipeg Hydro. Is that correct?
8 MR. VINCE WARDEN: Yes, that's correct.
9 MR. BOB PETERS: And the revenue
10 enhancements, as I understood it, also found at CAC/MSOS
11 Manitoba Hydro, First Round, Question 6(a). One (1) of those
12 was through electricity sales. Do you recall that?
13 MR. VINCE WARDEN: We'll just turn up the IR,

14 just take a minute here, Mr. Peters.
15 MR. BOB PETERS: Certainly.

16
17 (BRIEF PAUSE)

18
19 MR. BOB PETERS: Let me start again, Mr.
20 Warden.

21 As part of the purchase of Winnipeg Hydro,
22 Manitoba Hydro is assuming that by fiscal year ending 2006,
23 there would be revenue enhancements of approximately \$2
24 million.

25 MR. VINCE WARDEN: Yes.

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1 MR. BOB PETERS: And that amount of actual
2 revenue enhancements was -- was forecasting more like five
3 hundred thousand (500,000) in 2004 and four hundred thousand
4 (400,000) in 2005?

5 MR. VINCE WARDEN: Yes, that's in accordance
6 with our response to CAC/MSOS.

7 MR. BOB PETERS: And I understood from the
8 evidence filed that, that -- that those revenue enhancements
9 were going to come from three (3) primary sources. One (1)
10 of them being electricity sales; the second was excess fibre
11 optic rental capacity; and the third was additional output
12 from plants.

13 Have I got that right?

14 MR. WILLIE DERKSEN: Yes, that's correct.

15 MR. BOB PETERS: You're a little fuzzy this
16 morning, Mr. Derksen, but maybe that's the technology.

17 Mr. Derksen, the electricity sales revenue, is
18 that revenue enhancement as a result of Manitoba Hydro having
19 DSM programs in place so that you can sell on the export
20 market, additional capacity?

21 MR. WILLIE DERKSEN: Yes, that's correct and
22 I'm still fuzzy.

23 MR. BOB PETERS: Maybe Mr. Warden would share
24 his microphone with you if -- if that's a problem and the
25 short term we can track that down at the break.

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1 So, of the \$2 million, Mr. Derksen, do you
2 know what amount is forecast to be as a result of electricity
3 sales revenue?

4 MR. WILLIE DERKSEN: Yes, approximately \$1
5 million of that was electricity revenue.

6 MR. BOB PETERS: And interestingly, this
7 excess fibre optic capacity, can you just briefly tell the
8 Board what that is?

9 MR. WILLIE DERKSEN: Winnipeg Hydro had
10 installed fibre optic capabilities that was under-utilized in
11 its area and the thought was in this thinking, still is, that
12 some of that excess capacity could be used by Manitoba Hydro
13 and some of it could be leased to others.

14 MR. BOB PETERS: What is the fibre optic
15 cable used for?

16 MR. WILLIE DERKSEN: Communications.

17 MR. BOB PETERS: And how much of this
18 additional \$2 million of revenue enhancements is attributed
19 to the rental of excess fibre optic capacity?

20 MR. WILLIE DERKSEN: I believe it's in the
21 order of half (1/2) a million.

22 MR. BOB PETERS: So, if my math is -- is
23 close, Mr. Derksen, you're also expecting approximately half
24 (1/2) a million dollars a year from additional outputs from
25 the two (2) Winnipeg Hydro generating stations?

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1 MR. WILLIE DERKSEN: Yes, that's correct.

2 MR. BOB PETERS: And I understood the
3 evidence from last week to be that Manitoba Hydro has not yet
4 made firm decisions to commit to those upgrades?

5 MR. WILLIE DERKSEN: My understanding --
6 excuse me -- is that the revenue enhancements that are
7 referred to this in this response relates to different
8 operating procedures and that in fact they're already
9 achieving the additional output those plants as a result of
10 the change in operating procedures. And so the other
11 refurbishments to the plants would result in -- in further
12 changes to revenue.

13 MR. BOB PETERS: All right. And those
14 additional outputs from the two (2) generating plants have
15 been achieved then without spending capital dollars?

16 MR. WILLIE DERKSEN: There have been some
17 capital dollars spent at the plant but I don't know that
18 that's related to this upgrade. This is an operating
19 procedure issue primarily.

20 MR. BOB PETERS: In Mr. Warden's explanation
21 to me of Manitoba -- excuse me -- of Manitoba Hydro, Exhibit
22 23. Mr. Warden is there any inclusion in that Exhibit of
23 capital expenditures for the refurbishment or upgrading of
24 Point Dubois?

25 MR. VINCE WARDEN: No, there's not.

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1 MR. BOB PETERS: And it's -- and no final
2 decision has yet been taken on that expenditure, if I recall
3 last week's evidence?

4 MR. VINCE WARDEN: That's correct.
5 MR. BOB PETERS: Mr. Warden, still with the
6 Winnipeg Hydro, Manitoba Hydro transaction, we touched last
7 week that there was a requirement that Winnipeg Hydro receive
8 approximately eight hundred thousand dollars (\$800,000) a
9 year in savings as a result of demand side management; is
10 that correct?
11 MR. VINCE WARDEN: Yes, there's a separate
12 agreement on demand side management and that is correct;
13 that's the amount per year savings that we anticipate.
14 MR. BOB PETERS: And is it correct for the
15 Board to understand that Manitoba Hydro has promised the City
16 of Winnipeg that it will -- that Manitoba Hydro will deliver
17 eight hundred thousand dollars (\$800,000) a year of savings
18 to the City of Winnipeg?
19 MR. VINCE WARDEN: Yes.
20 MR. BOB PETERS: And it's the City of
21 Winnipeg not customers within the old service territory of
22 Winnipeg Hydro?
23 MR. VINCE WARDEN: That's correct, yes.
24 MR. BOB PETERS: How is that going to be
25 measured, Mr. Warden; do you know?

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1 MR. VINCE WARDEN: Well, there's a fairly
2 extensive system in place to do that. It might be better
3 though to ask that question of the -- the next Panel that
4 will be speaking specifically to DSM.
5 MR. BOB PETERS: Okay. Before -- let me just
6 stay with you if I could, sir. What would happen in the
7 event that Manitoba Hydro cannot deliver to the City of
8 Winnipeg eight hundred thousand dollars (\$800,000) a year of
9 demand side management savings?
10 MR. VINCE WARDEN: Well, we make up the
11 difference as a cash payment.
12 MR. BOB PETERS: You cut them a cheque?
13 MR. VINCE WARDEN: We do.
14 MR. BOB PETERS: And the cheque would be for
15 the difference between eight hundred thousand dollars
16 (\$800,000) and the actual amount of measured demand side
17 management?
18 MR. VINCE WARDEN: That's correct. Over a
19 ten (10) year period.
20 MR. BOB PETERS: The agreement only lasts ten
21 (10) years?
22 MR. VINCE WARDEN: Yes.
23 MR. BOB PETERS: And last week you indicated
24 that the programs to be introduced to the City of Winnipeg,
25 the responsibility for payment of those projects is that of

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1 Manitoba Hydro as I understood?
2 MR. VINCE WARDEN: Any -- any capital costs
3 that would be incurred to put those programs in place would
4 be the responsibility of Manitoba Hydro, yes.
5 MR. BOB PETERS: Have those been quantified,
6 Mr. Warden?
7 MR. VINCE WARDEN: I think that, again, might
8 be a better question for the other Panel. There have been --
9 there has been quantification but I don't have those numbers
10 available.
11 MR. BOB PETERS: Okay. Then I'll make a note
12 to ask that of the -- of the next Panel. Does the IFF's that
13 have been filed in this proceeding, that is IFF Manitoba
14 Hydro 03-1; does that include any negative assumptions with
15 respect to this DSM requirement with Winnipeg -- City of
16 Winnipeg?
17 MS. LYN WRAY: I think, again, that would be
18 a question for the next Panel but I'm not aware of any
19 negative implications.
20 MR. BOB PETERS: Ms. Wray, you haven't built
21 into your IFF any amount on account of not hitting the DSM
22 targets with the City of Winnipeg?
23 MS. LYN WRAY: Not to my knowledge. I don't
24 believe so, no.
25

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1 (BRIEF PAUSE)
2
3 MR. BOB PETERS: Just to conclude on the
4 Winnipeg Hydro, Manitoba Hydro transaction, is it possible,
5 Mr. Warden, to file a discounted cash flow analysis for the
6 incremental impact of the Winnipeg Hydro acquisition for the
7 years 2003, 2004 to assist the Board in understanding the
8 impact on the stability of rates going forward?
9 MR. VINCE WARDEN: Do you mean to demonstrate
10 that the 25 million, et cetera, is equivalent to the 18
11 million?
12 MR. BOB PETERS: If that's what it'll
13 ultimately demonstrate and I think the horizon period, it
14 might be helpful to see it over the 2003 to -- the same
15 planning horizon as the IFF to 2014?
16 MS. LYN WRAY: Mr. Peters, could you maybe
17 clarify because at this kind of cash flow analysis by its
18 nature would look at the payment stream to infinity because
19 that's what we would be 16 million for. So, when you talk
20 about a discounted cash flow analysis just for two (2) years,
21 I'm not quite sure what you're looking for.
22 Would you not, in effect, be looking at the --
23 the impact on revenue requirements which involves accounting
24 rather than cash?
25 MR. BOB PETERS: Ms. Wray, I -- I think I

1 misspoke in my first question. I was trying to clarify it
2 later but it -- it is a discounted cash flow analysis that is
3 being sought and I appreciate you would run it out to
4 infinity, but the years that I think only need to be
5 reflected on the Schedule would be 2003 to 2014.

6 MR. VINCE WARDEN: I guess we're still
7 struggling with that. The --

8 MR. BOB PETERS: Perhaps I could speak with
9 your counsel at the break, Mr. Warden, and at this point in
10 time we'll -- we'll come back to that.

11 MR. VINCE WARDEN: Like if we take the
12 present value of \$25 million for five (5) years, 20 million
13 for four (4) and sixteen (16) into infinity, we come to a
14 certain number. You're -- you want to -- us to demonstrate
15 that, that number is equivalent to taking an \$18 million
16 forever and show those two (2) numbers are the same? Is
17 that? Just for clarification.

18 MR. BOB PETERS: No, I -- I was thinking more
19 of the actual cash flow, dealing with both the revenues and
20 the expense side, and that would be done in each year going
21 forward.

22 MR. VINCE WARDEN: Well there is -- if you
23 look at the revenue and expense side, it would be zero. So
24 there would be, I think to bring back.

25 MS. LYN WRAY: In terms though of the impact

1 on the rate payer, are you not more interested in the impact
2 on the income statement and so forth? Which would not be a
3 cash flow analysis?

4 MR. BOB PETERS: I -- I still think it's the
5 discounted cash flow analysis that I would like, dealing with
6 the cash flow and this may be a matter that's best left for
7 discussion with counsel at the break and then we can decide
8 if we're going to proceed further.

9 MR. VINCE WARDEN: Okay, thank you.

10 MR. BOB PETERS: Last week, we were looking
11 at Document Number Twenty-Seven (27) which was found in the
12 -- the book of documents that I had provided to the Witness
13 Panel and the Board. Document Twenty-Seven (27) was the
14 Consolidated Balance Sheet as of March 31st of 2003. Have
15 you located that?

16 MR. VINCE WARDEN: Yes, Mr. Peters. We have
17 it here.

18 MR. BOB PETERS: The item that I hadn't asked
19 questions on, I don't think, was on the other deferred asset
20 line of \$344 million. Can you just briefly explain to the

21 Board what's included in that?
22 MR. VINCE WARDEN: Yes, there's a reference
23 to a note, note eleven (11). So, I think -- at -- at Tab 27,
24 you've also included a -- a copy of that. So, if you just
25 turn to Note 11 on the last page of that Exhibit, or of that

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1 Tab. There's a list provided of what's included in other
2 deferred assets.
3 MR. BOB PETERS: I was maybe looking for a
4 more generic answer, Mr. Warden, in terms of -- of why do you
5 defer these other assets, which I appreciate are -- are
6 listed and quantified. What is the rationale for deferring
7 them at this point?
8 MR. VINCE WARDEN: Well, normally, there is a
9 deferral in costs whenever there is a future benefit. So
10 we're attempting to amortize these costs over future periods
11 when the ratepayers will receive those benefits.
12 MR. BOB PETERS: Is this consistent with what
13 you said you try to match when the revenues are going to come
14 in, to when the expenses should be taken into account?
15 MR. VINCE WARDEN: Essentially, yes.
16 MR. BOB PETERS: And in the meanwhile, the
17 expenses attract debt financing costs.
18 MR. VINCE WARDEN: Well, to the extent that
19 there is an outlay of cash required, there's financing costs
20 incurred. So again, if we turn to the note 11, Power Smart
21 Programs, these are programs for which we have incurred
22 capital costs and those costs are being amortized over a
23 fifteen (15) year period, and there would have been capital
24 costs -- or sorry, interest costs incurred in putting those
25 programs together.

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1 MR. BOB PETERS: Thank you, Mr. Warden. Do
2 you know why fifteen (15) years is picked as the period of
3 amortization for the Power Smart Program?
4 MR. VINCE WARDEN: It's a matter of judgment.
5 It's a period over which in the opinion of management, it's a
6 period over which those -- the benefits will be received.
7 MR. BOB PETERS: Is that consistent with what
8 other utilities do for similar expenditures, or do you -- do
9 you know that?
10 MR. VINCE WARDEN: Well, actually other
11 utilities -- there's probably no one (1) consistent
12 amortization period. Some are quite a bit shorter, some are
13 as short as five (5) years, others are ten (10) years, but
14 we've chosen fifteen (15) to be a period for Manitoba Hydro.
15 MR. BOB PETERS: And that fifteen (15) year

16 period includes all programs, not just selected programs?
17 MR. VINCE WARDEN: That would be all Power
18 Smart Programs, yes.
19 MR. BOB PETERS: And that would also include
20 things like wages and overheads in that capitalized figure?
21 MR. VINCE WARDEN: To the extent that wages
22 and overhead were incurred to put the program together to
23 deliver those programs, yes, those would be capitalized and
24 amortized over that same period.
25 MR. BOB PETERS: And, Mr. Warden, what happens

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1 if Manitoba Hydro determines that the program doesn't have a
2 future value?
3 MR. VINCE WARDEN: Well, that hasn't occurred,
4 to my knowledge, but in that hypothetical case, that would be
5 written off to -- to an expense.
6 MR. BOB PETERS: Does that mean that of all of
7 your demand side management programs, you've never had one
8 (1) that's -- that's a no go, for Manitobans?
9
10 (BRIEF PAUSE)
11
12 MR. VINCE WARDEN: Well, I can't think of any
13 one (1) that's been -- that we've looked at that's been in
14 your words, a no go, Mr. Peters. I -- we do look at a number
15 of different programs every year though, and to the extent
16 that we believe that those programs will at some point in the
17 future be implemented, then those are included in the Power
18 Smart Program that we would capitalize.
19 MR. BOB PETERS: Where on your financial
20 statements would I find the line item where you would include
21 things that are written off, or programs that didn't deliver
22 future value, as determined by the Corporation?
23 MR. VINCE WARDEN: Well, they would just be
24 written off as a part of other operating and administrative
25 expense, or possibly, depending on the nature of the program,

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1 if those costs were incurred in the year -- the same year
2 that they're written off, it would be under other -- other
3 operating, administrative expense.
4 If they pertained to previous years, they
5 would be included in appreciation and amortization.
6 MR. BOB PETERS: But you're telling the Board
7 there hasn't in fact been any of those types of expenditures
8 that you're aware of?
9 MR. VINCE WARDEN: Not to my knowledge, no.
10 MR. BOB PETERS: One (1) of the other items

11 broken down on note 11, which is the last -- the last page
12 under Tab 27 of the book of documents that I provided, which
13 came from the consolidated balance sheet of the Corporation,
14 there's planning studies and that in 2003, was at 35 million,
15 down from a 122 million the year before, is that correct?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: These are planning studies
18 for uncommitted projects, Mr. Warden?

19 MR. VINCE WARDEN: That's correct, yes.

20 MR. BOB PETERS: And they're amortized and
21 deferred for also fifteen (15) years?

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: Is that also a matter of
24 judgment?

25 MR. VINCE WARDEN: Yes.

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1 MR. BOB PETERS: And once the project is
2 committed, the unamortized balance will then be transferred
3 to construction work in progress?

4 MR. VINCE WARDEN: That's correct, yes.

5 MR. BOB PETERS: And at that point the
6 amortization stops until the project is built?

7 MR. VINCE WARDEN: That's right.

8 MR. BOB PETERS: And at that point in time
9 then you depreciate the expense?

10 MR. VINCE WARDEN: That's exactly right, yes.

11 MR. BOB PETERS: And what happens if a project
12 on which you're doing a planning study is cancelled, or again
13 in my words, a no go from the Corporation's perspective?

14 MR. VINCE WARDEN: That would remain and be
15 amortized. I cannot think of any situation where we've
16 charged that cost off to expense so that would -- that would
17 remain in planning studies and be amortized over that fifteen
18 (15) year period.

19 MR. BOB PETERS: So even if the Corporation
20 determines there would be no future, it'll remain in that
21 line item and continue to be amortized?

22 MR. VINCE WARDEN: Yes, that's right.

23 MR. BOB PETERS: Have there, in fact, been
24 such planning studies that the Corporation has determined
25 will not lead to a project and therefore have to be written

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1 off -- or, sorry, not "written off" but cancelled and
2 therefore left in this item?

3 MR. VINCE WARDEN: I would expect so, yes.

4 We do a lot of planning studies at Manitoba Hydro and a lot
5 of them would, I would expect, would be amortized over that

6 fifteen (15) year period.
7 The test of a future benefit, there's also
8 another test on rate impact so if we were to be doing --
9 writing off planning studies each year that we'd determined
10 were not going to proceed with there could be an unacceptable
11 bottom line impact.
12 So it -- it provides a smoothing effect as
13 well.
14 MR. BOB PETERS: Is it in accordance with
15 generally accepted accounting principles to amortize projects
16 over fifteen (15) years, even if they're uncommitted or
17 uncertain?
18 MR. VINCE WARDEN: Yes. It's in accordance
19 with generally accepted accounting principles for regulatory
20 -- for rate regulated enterprises.
21 MR. BOB PETERS: Do you include research and
22 development as planning studies?
23 MR. VINCE WARDEN: Not normally, no.
24 Research and development is a separate category and is -- is
25 expensed in the year incurred for the most part.

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1 MR. BOB PETERS: Could I ask of you, Mr.
2 Warden, to undertake to just provide me with the reference to
3 the CICA Handbook on -- on the process that you utilize for
4 the capital expenditures including the planning study?
5 MR. VINCE WARDEN: Certainly.
6
7 --- UNDERTAKING NO. 19: To provide the reference to the
8 CICA Handbook on the process for
9 the capital expenditures
10 including the planning study.
11
12 CONTINUED BY MR. BOB PETERS:
13 MR. BOB PETERS: Have you checked the
14 planning study -- I'm sorry, the accounting policies of
15 Manitoba Hydro with those of other utilities such as Quebec
16 or BC in terms of how costs for planning studies are taking
17 into consideration?
18 MR. VINCE WARDEN: We compare our accounting
19 policies quite regularly to BC Hydro and Hydro Quebec. With
20 respect to planning studies specifically, I believe we're
21 relatively consistent. However, I haven't looked at that
22 myself in recent times, but I can -- I can undertake to do
23 that.
24 MR. BOB PETERS: I appreciate that, sir.
25

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1 --- UNDERTAKING NO. 20: To compare accounting policies
2 with BC Hydro and Hydro Quebec
3 with respect to planning studies.
4
5 CONTINUED BY MR. BOB PETERS:
6 MR. BOB PETERS: Mr. Warden, to maybe
7 conclude in the area of the balance sheet, there are a number
8 of assets such as deferred costs and goodwill and some of the
9 things that we've talked about that -- that don't immediately
10 yield a return to the Corporation; would you agree with that?
11 MR. VINCE WARDEN: Not sure I would.
12 Goodwill is there because there is, in fact, goodwill so
13 there's a return to the Corporation. The very fact that we
14 have it as an asset on our balance sheet, it's there and is
15 realizing a benefit.
16 So, no, I'm not sure I would agree with that.
17 MR. BOB PETERS: Do you have any assets on
18 your balance sheet that you would consider to be non-
19 performing assets?
20 MR. VINCE WARDEN: No. No, there -- if I
21 went through every asset that the Corporation has, you know,
22 there are some that possibly would fall into that category,
23 but certainly nothing of any -- any magnitude.
24 MR. BOB PETERS: You don't consider deferred
25 debt costs of about \$571 million as -- as a non-performing

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1 asset?
2 MR. VINCE WARDEN: No. No. Not at all.
3 MR. BOB PETERS: How is that performing then,
4 if I could use the flip side of that -- that term?
5 MR. VINCE WARDEN: Well, it's -- it wouldn't
6 normally put it under the heading of "performing assets" but
7 it's there for a very good reason. And, you know, we're
8 matching that to -- it's part of the overall management of
9 debt, and to the extent that we manage our debt for the
10 benefit of ratepayers, it's performing.
11 MR. BOB PETERS: Do you use any analysis of
12 the balance sheet as a financial target, or a planning
13 mechanism, going forward?
14 MR. VINCE WARDEN: Well, the one (1) that we
15 use primarily, is the debt equity ratio. So, all of that
16 factors into the -- our debt equity ratio.
17 MR. BOB PETERS: Do you ever measure total
18 debt to the various performing assets? That would be ones
19 that generate a return to the Corporation in the short term?
20 MR. VINCE WARDEN: We don't typically look at
21 our assets individually and try to categorize which ones are
22 performing, and which ones may not be. There is various
23 levels of efficiency of our generating facilities, for
24 example, some of our transmission lines are less efficient
25 than others, but we don't typically go down the list and try

1 to assess which ones are performing in a relative sense.

2 MR. BOB PETERS: Can you indicate to the
3 Board, Mr. Warden or Mr. Derksen, what percentage of total
4 expenditures were capitalized by the Corporation last year?

5

6

(BRIEF PAUSE)

7

8 MR. VINCE WARDEN: Do you mean, Mr. Peters, if
9 we were to look at the total outflow of cash for the
10 Corporation, for the year, all revenues all -- sorry, all
11 expenses, be they operating or capital, what proportion was
12 capital?

13

14

MR. BOB PETERS: Yeah, what was capitalized?

15

(BRIEF PAUSE)

16

17

MR. VINCE WARDEN: Well, if we refer to the --
18 sorry, it's not part of this tab, but the consolidated
19 statement of cash flows, and I don't have the immediate
20 reference, but it's our -- our published Annual Report, you
21 can see that \$484 million was capitalized out of -- it's not
22 typically a calculation we do, but you'd have to look at the
23 total expenditures, operating and capital and express that
24 \$484 million as the total of the -- of the total outflow of
25 costs for the Corporation.

1 But again, that's not something we typically
2 would look at. The Capital Program has been -- well, it was
3 \$484 million in '02/03, approximately \$500 million in '03/04,
4 and will be increasing with the expenditures on -- on new
5 generation in future periods.

6

7 So, it will vary year to year and it really
8 would serve us no purpose, at least not from Manitoba Hydro's
9 perspective, to look at that percentage as compared to the
10 total expenditure.

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MR. BOB PETERS: But recognizing your
qualification in your answer, Mr. Warden, would you still
undertake to perform the calculation and file it with the
Board.

MR. VINCE WARDEN: I think Mr. Derksen may
have already calculated that, so he'll give it to you.

MR. BOB PETERS: Mr. Derksen, can you explain
your answer and provide your answer at the same time?

MR. WILLIE DERKSEN: Well, the way that I've
looked at it, and I think this is the way that you're -- that
you're asking the question, is if there was \$1.8 billion of
cash receipts, which is shown on the cash flow statement, the
consolidated cash flow statement, and if property, plant and
equipment investments was \$484 million, that would mean

24 approximately 25 percent of the cash was used towards
25 property, plant and equipment.

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1 MR. BOB PETERS: Mr. Derksen, is that \$1.8
2 billion of cash receipts, the same as cash disbursements?

3 MR. VINCE WARDEN: The 1.8 billion that Mr.
4 Derksen referred to was the cash receipts from the customers.
5 I should point out though that even that expressing our \$484
6 million as a percentage of that total cash receipts, is
7 probably not valid, because we borrow money during the year
8 for -- for purposes that are used for not only refinancing
9 debt, but for capital construction.

10 So, it becomes a bit of a -- a mixed -- I
11 would -- if you really would like to know what percentage of
12 our capital is of our total cash inflows for the year; it's
13 probably something we should calculate as an undertaking.

14 I really though don't see the value of it but
15 we can certainly do it if you like.

16 MR. BOB PETERS: I would, Mr. Warden, but I'm
17 just not sure you and I are on the same page and that's
18 probably the function of my understanding of the terminology.

19 But what I think I -- I -- what I would like
20 is total cash disbursements as well as all capitalized
21 expenditures regardless of the source; is that something you
22 can provide?

23 MR. VINCE WARDEN: So, even if we had to
24 borrow some of those funds in order to make those
25 disbursements; you'd like to see that total number?

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1 MR. BOB PETERS: Yes, I would. And not just
2 capitalized construction or equipment but all capitalized
3 expenses?

4 MR. VINCE WARDEN: Sure.

5
6 --- UNDERTAKING NO. 21: To calculate what percentage of
7 Manitoba Hydros' capital is of
8 the total cash inflows for the
9 year.

10
11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: And while we're looking at
13 that, can you indicate what total amount of payroll dollars,
14 that would be wages and benefits, were capitalized in 2003?
15

16 (BRIEF PAUSE)

17
18 MR. VINCE WARDEN: We can give you an

19 approximate number on that. We know what our total payroll
20 is -- payroll and benefits; that amount is rolled up into an
21 activity rate and those activities are capitalized as part of
22 the capital construction program.

23 So, we could give you a ratio that would
24 approximate the total wages and salaries capitalized but it
25 wouldn't be precise.

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1 MR. BOB PETERS: Would that include related
2 overheads as well or would that be taken out separately?

3 MR. VINCE WARDEN: Sorry, the activity rate,
4 yes, does include overheads as well.

5 MR. BOB PETERS: Can it be broken out
6 separately?

7 MR. VINCE WARDEN: Again, because of the way
8 we do our accounting, rolling all those costs together into
9 an activity rate, overhead is a portion of that and we can --
10 we can come relatively close in terms of approximating what
11 that relative percentage is, yes.

12 MR. BOB PETERS: I'd appreciate that as an
13 undertaking and maybe just indicate Mr. Derksen, if you're
14 doing the math, how many EFT's is that equivalent to on a --
15 the Corporation? You can divide that out by whatever you
16 assign as a dollar value to the EFT's.

17 MR. WILLIE DERKSEN: Again, through an
18 approximation, I think we can provide something, yes.

19 MR. BOB PETERS: That's -- that would be
20 fine.

21
22 --- UNDERTAKING NO. 22: To provide a ratio that would
23 approximate the total wages and
24 salaries capitalized in 2003.
25

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1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Just a couple of quick final
3 areas, if I might, Mr. Chairman, again, it's unfortunately an
4 accounting question.

5 There's a new section in the CICA Handbook
6 31.10; are you familiar with that?

7 MR. WILLIE DERKSEN: Yes, sir.

8 MR. BOB PETERS: Is that a new section that
9 deals with the asset retirement obligation, Mr. Derksen?

10 MR. WILLIE DERKSEN: Yes, it is.

11 MR. BOB PETERS: Could you briefly define or
12 explain that to the Board?

13 MR. WILLIE DERKSEN: Yes. Asset Retirement

14 obligations are those legal obligations that a corporation
15 has to remediate or to retire and remediate properties when
16 that asset is retired or taken away from use.

17 What that section requires the corporation to
18 do is to estimate those costs and to recognize a -- a cost
19 throughout the period that that asset is in service so that
20 when the asset is retired there will be -- those costs will
21 have been included in its cost calculations throughout that
22 period and there will be a reserve set up to -- to cover
23 those retirement costs.

24 MR. BOB PETERS: This is a new provision?

25 MR. WILLIE DERKSEN: Yes, it is. It's not

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1 effective for the 2003/04. I think it's effective for years
2 commencing after January 1st, 2004.

3 MR. BOB PETERS: How is Manitoba Hydro
4 addressing that new section, Mr. Derksen?

5 MR. WILLIE DERKSEN: Well, at this point in
6 time, we're assessing -- we're doing the legal search of what
7 our legal obligations really are with respect to retirement
8 of assets.

9 MR. VINCE WARDEN: I might just add though
10 that it's -- it will have minimal impact on the bottom line
11 of Manitoba Hydro. We already include in depreciation
12 expense an amount -- the component for the ultimate
13 retirement of assets.

14 All this section does is it's saying, well,
15 we'll set -- set that amount up as a liability on the balance
16 sheet and the net impact as far as the depreciation expense
17 should be identified, or very close to being identified.

18 MR. BOB PETERS: Do I understand then, Mr.
19 Warden, it would come out of the depreciation expense item
20 and be set up as a separate item on your financial
21 statements?

22 MR. VINCE WARDEN: No, it would still be
23 under the category of depreciation expense as far as the
24 annual charge on the income statement is concerned. It will
25 still appear on that line item. It's just that we'll set up

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1 a liability on the -- on the balance sheet to -- to recognize
2 the fact that ultimately we're going to retire those assets
3 and the -- that charge will be incurred.

4 MR. BOB PETERS: Did I gather from a previous
5 answer, Mr. Warden, that you're still conducting your
6 analysis to determine what the legal obligations will be and
7 what the corresponding dollar amount will be with those?

8 MR. VINCE WARDEN: Well, the way the

9 guideline is worded, it's only those legal obligations that
10 are necessary to set up on the balance sheet. So, we -- you
11 know -- we -- it serves very little purpose setting them up
12 as a liability but we'll certainly do that to the extent that
13 it's legally required.

14 But again, no -- no operating statement
15 impact. So I -- we don't see this as being a big issue for
16 Manitoba Hydro at all.

17 MR. BOB PETERS: Can you indicate whether the
18 IFF, Manitoba Hydro 03-1 incorporates any amount on account
19 of CICA Handbook Section 3110?

20 MR. VINCE WARDEN: Well, yes, as I just
21 explained, it's not going to have an impact on depreciation
22 expense. We already include in depreciation expense an
23 amount for -- ultimate retirement of assets, so it'll have no
24 impact. Virtually no impact on the IFF.

25 MR. BOB PETERS: So while there may be not be

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1 an express item included in the IFF, Mr. Warden, you believe
2 at this point in time that whatever impact is already been
3 accounted for, the depreciation expense.

4 MR. VINCE WARDEN: Yes. The balance sheet
5 impact only.

6 MR. BOB PETERS: There was one (1) question I
7 forgot to ask you, in my notes somewhere, about the Winnipeg
8 Hydro debt that you acquired, Mr. Warden. I take it Winnipeg
9 Hydro had approximately, within 186 million dollars of debt?

10 MR. VINCE WARDEN: Yes, that's right.

11 MR. BOB PETERS: And who held the debt for
12 Winnipeg Hydro?

13 MR. VINCE WARDEN: The City of Winnipeg held
14 the debt.

15 MR. BOB PETERS: And to get -- when you
16 acquired the 186 million dollars of debt from Winnipeg Hydro,
17 did you go out and refinance that?

18 MR. VINCE WARDEN: No. We set up an
19 obligation that paralleled the -- the terms and conditions
20 of the existing debt that was imbedded in the City of
21 Winnipeg debt. So we make payments to the City of Winnipeg
22 that allows them to discharge their -- their debt obligation.

23 MR. BOB PETERS: And so the parallel debt
24 obligations that you set up were on exactly the same terms
25 and conditions that Winnipeg Hydro had with the City of

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1 Winnipeg?

2 MR. VINCE WARDEN: That's right, yes.

3 MR. BOB PETERS: Including the interest rate?

4 MR. VINCE WARDEN: Yes.
5 MR. BOB PETERS: Was it possible for Manitoba
6 Hydro to obtain cheaper debt than what Winnipeg Hydro was
7 operating under?
8 MR. VINCE WARDEN: No, we had the obligation
9 to defuse that -- that debt on the same terms and conditions.
10 That was part of the agreement.
11 MR. BOB PETERS: All right. Last question, a
12 free for all for the Panel. In terms of what's happening in
13 the -- in the world environmental scene of which you may have
14 been speaking in a different panel. What is Manitoba Hydro's
15 understanding of the status of the Kyoto Accord?
16 I told you it was open for the Panel.
17 MR. VINCE WARDEN: You know, Manitoba Hydro
18 has adopted the provisions of the Kyoto Accord and we're
19 committed to obtaining the reductions over that period 1990
20 to 2012, I believe the time period is. So, we're doing that.
21 We're measuring it.
22 Irregardless of whether the Kyoto Accord is
23 ever formally implemented across Canada, it's -- it has been.
24 The provisions, the reductions -- the emission reductions are
25 -- are still targets that Manitoba Hydro is -- is striving to

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1 attain.
2 MR. BOB PETERS: It's a voluntary compliance
3 at this point in time, Mr. Warden?
4 MR. VINCE WARDEN: It is.
5 MR. BOB PETERS: And at this point in time
6 there hasn't been an actual ratification then of the targets?
7 MR. VINCE WARDEN: That's right.
8 MR. BOB PETERS: Is there a risk to Manitoba
9 Hydro, if these targets aren't adopted?
10
11 (BRIEF PAUSE)
12
13 MR. VINCE WARDEN: No, like as far as Manitoba
14 Hydro is concerned, and maybe I should back up on that
15 previous answer. Has there been a national ratification I
16 think you said.
17 You know, I think that's maybe a bit of a
18 political question, that I'm not qualified to answer. I --
19 I'm not sure what it takes going forward, to achieve those
20 targets, and whether it's been officially ratified at a
21 national level. I probably shouldn't speak to -- as far as
22 Manitoba Hydro is concerned though, we have adopted those
23 targets and will -- will retain those targets irregardless of
24 what happens on the national scene.
25 MR. ROBERT MAYER: Some of us at this table

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1 believe it -- it was ratified by the Federal Parliament.

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Thank you.

5 MS. LYN WRAY: It would in the longer term
6 have quite an impact on our export revenues. I don't know if
7 that's within the term of the IFF, but if Kyoto is ratified
8 and there are environmental premiums available for -- for
9 hydro generation, then that will enhance our respective
10 export prices.

11 MR. BOB PETERS: An interesting comment Ms.
12 Wray, what if your export partner, the United States, doesn't
13 ratify the Kyoto Accord, does that put your export prices at
14 risk?

15 MS. LYN WRAY: Well, I believe that the export
16 prices that we have in our base forecast are quite
17 conservative. If -- so it's more a -- a sensitivity on the
18 upside if our partner in the United States comes around to
19 supporting something like Kyoto.

20 MR. BOB PETERS: Mr. Chairman, Board Members,
21 I would again like to thank the Panel, including Mr. Cormie,
22 in his absence, he did advise he'd be away. And I do thank
23 the Panel again for their answers this morning. That
24 concludes my questions.

25 MR. ROBERT MAYER: Except for that one (1)

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1 that you're going to discuss with Ms. Ramage during the
2 break, right?

3 MR. BOB PETERS: Yes, that may come by way of
4 an under -- come back by way of an undertaking, Mr. Mayer.

5 THE CHAIRPERSON: Thank you, Mr. Peters, and
6 thanks to Hydro's Panel. We'll probably take our short ten
7 (10) minute coffee break now, and then we will come back and
8 begin with the Intervenor's cross-examination, thank you.

9

10 --- Upon recessing at 10:15 a.m.

11 --- Upon resuming at 10:33 a.m.

12

13 THE CHAIRPERSON: Okay, folks, if we could
14 return to the Hearing. We'll just hold off for twenty (20)
15 seconds.

16

17 (BRIEF PAUSE)

18

19 THE CHAIRPERSON: The first Intervenor that
20 will enter into cross-examination will be CCEP, Mr.
21 Feldschmid. And before he begins, I'm just going to mention
22 that MIPUG wants to put on a brief presentation at 11:30, so
23 if you wouldn't mind, Mr. Feldschmid, pausing in your cross-
24 examination for that, thank you. Mr. Feldschmid...?

25 MR. JURGEN FELDSCHMID: Is this -- all right.

1 Now we're cooking with gas, or in this case electricity, I
2 suppose.

3 Mr. Chairman, thank you for that. I frankly
4 expect not to take quite a full hour, so chances are I'm
5 going to be done by the time the MIPUG people get here.

6

7 CROSS-EXAMINATION BY MR. JURGEN FELDSCHMID:

8 MR. JURGEN FELDSCHMID: Good morning to the
9 Hydro Panel. Let me start first of all, with a fairly
10 mundane informational question. If I could ask you to turn
11 to CCEP-MH-I-3C please?

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: Mr. Feldschmid, could you
16 help me with what volume number that would be located in?

17 MR. JURGEN FELDSCHMID: Yes, that would be in
18 Volume VI.

19

20 (BRIEF PAUSE)

21

22 MR. JURGEN FELDSCHMID: Ms. Ramage, does your
23 Panel have that in front of them, or at least some member of
24 your Panel?

25

MS. PATTI RAMAGE: Yes, we do.

1 MR. JURGEN FELDSCHMID: Thank you.

2

3 CONTINUED BY MR. JURGEN FELDSCHMID:

4 MR. JURGEN FELDSCHMID: Just a clarification
5 of the note by the asterisk at the bottom of that schedule:

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-- and it's contained in the Annual Report, is that correct?

MR. VINCE WARDEN: Yes, that's correct. So, I
think, probably when I look at this now, the response should
have referred to the statement of cash flows. I think it was
formerly referred to as the statement of changes in financial
position, but now it's -- in Manitoba Hydro's most recent

21 Annual Report, it's the statement of cash flow, so that was
22 what was being referred to there.
23 MR. JURGEN FELDSCHMID: And just for absolute
24 clarity, that's on page 80 of the -- of Manitoba Hydro
25 Electric Board 52nd Annual Report, is that correct?

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1 MR. VINCE WARDEN: Yes, I'm sorry, I just
2 noticed too though, we are referring to the IFF, so it's
3 quite possible that if we look at the IFF, it is referenced
4 there as the statement of changes, and in fact, I believe
5 that is...

6 MR. JURGEN FELDSCHMID: I'm looking at MH-03-
7 01, and I see projected operating statements, projected
8 balance sheet, and projected financing requirement
9 statements.

10 MS. LYN WRAY: Yes, it would be on the latter
11 one (1), the projected financing requirements statement.

12 MR. JURGEN FELDSCHMID: So that term,
13 protected financing requirement statement, could be used
14 interchangeably with statement of changes in that response to
15 that IR?

16 MS. LYN WRAY: Yes.

17 MR. JURGEN FELDSCHMID: Thank you for that.

18 I'd like to turn to the -- an issue of
19 operating and administration expense in -- in relation to the
20 acquisition of Manitoba Hydro and perhaps the Board -- the
21 Panel could refer to CCP MH-I-11B, please.

22

23 (BRIEF PAUSE)

24

25 MR. JURGEN FELDSCHMID: And particularly,

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1 page 4 of that response to the IR.

2

3 (BRIEF PAUSE)

4

5 MR. VINCE WARDEN: Yes, I believe we have it
6 here.

7 MR. JURGEN FELDSCHMID: Thank you. Now,
8 there's an indication in the variance between '02/'03 actual,
9 '03/'04 forecast at the -- at the bottom for total O&A cost
10 of an increase of that period 15 percent. Is that correct?

11 MR. VINCE WARDEN: Yes, that's just a
12 calculated number. Of course, and that's probably where
13 you're going with this, but Winnipeg Hydro causes that --
14 that increase.

15 MR. JURGEN FELDSCHMID: Yes and -- looking at

16 that in terms of an actual dollar amount, it looks like about
17 a \$40 million increase, and I think you and I are heading in
18 the same direction, Mr. Warden.

19 In that -- based on some information request
20 from CAC, particularly Round 10-A and Round 2, 13(b), I
21 understand that the impact on O&A for that year, due to the
22 acquisition of Winnipeg Hydro alone, is somewhere in the \$33
23 million range. Is that correct?

24 MR. VINCE WARDEN: I think the -- If I could
25 just take a moment on that, please.

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1 (BRIEF PAUSE)

2
3 MR. VINCE WARDEN: Yes, the \$33 million
4 number is what we've calculated to be the annualized number
5 for Winnipeg Hydro. So, because Winnipeg Hydro was acquired
6 in September 2002, there is part year impacts on both '02/'03
7 and '03/'04.

8 MR. JURGEN FELDSCHMID: And so then, as
9 you're indicating, about approximately 33 million is the
10 annualized impact. The overall increase between the two (2)
11 years as per this table is 40 million. So then, non-Winnipeg
12 Hydro acquisition increase would be limited to a \$7 million
13 increase between those two (2) years. Is that correct?

14 MR. VINCE WARDEN: It's -- it's -- yes, it's
15 close to that. \$7 million is approximately the difference
16 between '02/'03 and '03/'04, excluding the impacts of
17 Winnipeg Hydro. Yes, I agree with that.

18 MR. JURGEN FELDSCHMID: Thank you.

19 If you could just shift for a moment to the
20 issue of the downtown office tower. And referring in
21 particular to Volume 7, Appendix 17, at page 9, which is
22 essentially the Offer to Purchase. Or, sorry, the Purchase
23 Agreement between Winnipeg Hydro -- or sorry, with the City
24 of Winnipeg and Manitoba Hydro. Perhaps if you could turn
25 that up.

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1 (BRIEF PAUSE)

2
3 MS. PATTI RAMAGE: Could I get the reference
4 again, Mr. Feldschmid?

5 MR. JURGEN FELDSCHMID: It's Volume 7,
6 Appendix -- maybe, sorry, I think I misspoke. It's actually
7 Appendix 12, at page 9.

8
9 (BRIEF PAUSE)

10

11 MR. JURGEN FELDSCHMID: I'm looking
12 particularly at the section 3.7 "Construction of downtown
13 office tower".
14 MR. VINCE WARDEN: Yes, we have it here.
15 MR. JURGEN FELDSCHMID: Thank you. And in
16 the second sentence is says
17 "The construction of said office building
18 shall commence on or before the 5th
19 anniversary of the closing date."
20 And I understand that that -- the closing date
21 was in September of 2002; is that correct?
22 MR. VINCE WARDEN: Correct.
23 MR. JURGEN FELDSCHMID: So by that
24 calculation construction of the office building, by the terms
25 of this agreement, need not commence until September 2007; is

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1 that correct?
2 MR. VINCE WARDEN: Yes.
3 MR. JURGEN FELDSCHMID: Yet, I notice in your
4 capital expenditure forecast at page 55 your -- you have an
5 indication of \$7 million budget -- budgeted in capital
6 expenditure for the building in the fiscal ending '04 and \$31
7 million budgeted for the building in fiscal ending '05; is
8 that correct?
9 MR. VINCE WARDEN: Subject to check, I'll
10 accept those numbers, yes.
11 MR. JURGEN FELDSCHMID: I'm just wondering
12 why -- what is the thinking -- and I, just to recall from
13 some earlier testimony, I -- I understand that Hydro's view
14 of those numbers are what has been referred to as a placemark
15 or a bookmark that the costs are actually not extremely well
16 known in terms of the exact number and could possibly be
17 higher; is that right?
18 MR. VINCE WARDEN: Well, I think we said that
19 the \$75 million that we have in our capital expenditure
20 forecasts at this time was essentially a placeholder and that
21 is subject to refinement going forward, yes.
22 MR. JURGEN FELDSCHMID: I'm just wondering
23 what the thinking on behalf of the Corporation is in terms
24 of, particularly at a time when obviously there have been
25 some financial reversals for the Corporation which it is now

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1 planning to recover from, why it would pick this time to
2 engage in a large capital expenditure earlier than it -- that
3 it necessarily has to?
4 MR. VINCE WARDEN: Well, the agreement simply
5 refers to the fact that construction will commence during

6 that period of time. And I think it was an understanding
7 that we would use our best efforts to commence that
8 construction as early as possible during that five (5) year
9 period.

10 The drought, yes, it came along at an
11 unfortunate time with respect to downtown building. But,
12 nevertheless, progress is such that we can't -- we have to
13 carry on.

14 The drought wasn't expected -- unexpected. We
15 had said previously that we expect to incur drought
16 situations about once every ten (10) years so I don't think
17 we can put progress on hold because of the drought. It was
18 an expected event and we carry on.

19 MR. JURGEN FELDSCHMID: But there wouldn't be
20 any -- would there be any appreciable compromise to hydro
21 operations if they were to put off spending money on building
22 this -- this building to the maximum that they could under
23 the agreement?

24 MR. VINCE WARDEN: I'm sorry, would you mind
25 just repeating that?

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1 MR. JURGEN FELDSCHMID: Well, let me perhaps
2 analogise to another situation. Many of the capital
3 expenditures that Hydro makes it justifies, and legitimately
4 so, on safety concerns, reliability concerns and so forth; is
5 that correct?

6 MR. VINCE WARDEN: Yes. The vast majority of
7 expenditures we make on capital are only those necessary to
8 maintain a reliable, safe system for the -- for the
9 ratepayers, yes.

10 MR. JURGEN FELDSCHMID: But I would suggest
11 to you that building a new office building downtown does not
12 fall in that same category; is that correct?

13 MR. VINCE WARDEN: Well, I would agree with
14 that as well. It's -- but it's the judgment of the Board of
15 Manitoba Hydro to proceed as they're doing. This is a unique
16 event in the history of Manitoba Hydro and one the Board has
17 decided to proceed with on the schedule that they're on now.

18 MR. JURGEN FELDSCHMID: When you say "a
19 unique event", I'm not sure if you mean the building, the
20 drought or the combination of the two?

21 MR. VINCE WARDEN: No. I said the drought
22 isn't unique. The building certainly is something that's
23 going to endure for a very long time. It is going to be, I
24 think it's been referred to as it's going to be a signature
25 building for the Corporation and important -- very important

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1 to downtown Winnipeg.

2 For a lot of good reasons it was determined
3 that it's appropriate to proceed on a timely basis.

4 MR. JURGEN FELDSCHMID: As you've indicated,
5 the board has decided that this is something that needs to be
6 proceeded with notwithstanding the current situation. But
7 you'll agree with me then by making that decision the board
8 is, in effect, deciding that it will go ahead with incurring
9 what could be termed as unnecessary costs at a time when the
10 -- the Corporation is under financial pressure and because of
11 that it's now looking for a rate increase?

12 MR. VINCE WARDEN: Well, the rate increase is
13 in no way related to the -- to the new building downtown.

14 MR. JURGEN FELDSCHMID: But all of the
15 expenditures of Manitoba Hydro, wherever they may be, affect
16 the overall financial position of Manitoba Hydro and
17 ultimately have the potential of playing some role, although
18 perhaps a very small one, in -- in the overall picture of
19 Hydro having to seek higher rates; isn't that true?

20 MR. VINCE WARDEN: Well, every -- every
21 dollar of expenditure that we incur has to be recovered from
22 ratepayers at some point in time. Now, the new building
23 though, without getting into the analysis of -- of -- of
24 that, there are economic reasons for proceeding with that as
25 well.

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1 There will be savings associated with bringing
2 people together that are in numerous different locations
3 around the city into one -- into one facility. So there
4 benefits. There are a lot of leases that we will be able to
5 release that -- so overall there will be, if not savings,
6 there will be minimal costs associated with the building
7 going forward.

8 MR. JURGEN FELDSCHMID: You've indicated that
9 you didn't want to get into an analysis of the benefits from
10 an operational perspective of having a centralized downtown
11 building but I'm just wondering; has any such study been --
12 or work been undertaken by the Corporation? Is there any
13 document that we might be able to ask you for that might
14 demonstrate that?

15 MR. VINCE WARDEN: There's no document that I
16 could file with this Board today. There certainly have been
17 reviews undertaken though as to which -- which leases would
18 be appropriate to -- to release; who's going to be located
19 downtown, who's going to stay in the 820 Taylor Avenue
20 Building, should we retain it; that hasn't been decided yet.

21 So there's a number of question marks that
22 still have to be -- questions that still have to be addressed
23 with respect to the building so nothing definitive that could
24 be filed with this Board at this time.

25 MR. JURGEN FELDSCHMID: Just one more

1 question in this general area and perhaps Ms. Wray might be
2 the best person to answer it.

3 Assuming for the moment that a decision was
4 taken by Manitoba Hydro not to commence any work in relation
5 to the building until after fiscal year ending in '05 and,
6 therefore, the \$31 million currently in the capital
7 expenditure forecast were no longer there for '05; can you
8 indicate how that would affect the bottom line on the income
9 statement of the IFF in terms of what lower rate or lower
10 revenue requirement there would?

11 What's the impact on revenue requirement if
12 that weren't to go ahead, for instance, in '05?

13 MR. VINCE WARDEN: Zero. Zero. No impact
14 whatsoever.

15 MR. JURGEN FELDSCHMID: And why is that?
16 Would there -- is there not some additional increase to the
17 financing expense or something else that would affect net
18 income by taking on that expenditure rather than not taking
19 on that expenditure?

20 MR. VINCE WARDEN: No, no. There -- similar
21 to any other project that Manitoba Hydro undertakes any
22 financing costs associated with -- with the building would be
23 capitalized until such time it was placed in service.

24 So if we're not going to occupy the building
25 until the Spring of 2007, at the earliest, there will be no

1 impact on 04/05 operations.

2 MR. ROBERT MAYER: Mr. Warden in the interim
3 here on the building, where do you put, recognizing that you
4 actually are -- I understand you actually have to dig a hole
5 or at least commence construction -- actual construction by
6 '07; where do you put your engineering plans, your
7 architectural plans and all those other expenses that, by
8 necessity, have to be obtained prior to breaking ground?

9 MR. VINCE WARDEN: Yes, all those costs are
10 charged to the capital project. So, in -- we've got in the
11 capital budget right now for \$75 million will absorb those
12 costs in the meantime.

13 MR. ROBERT MAYER: I was more particularly
14 interested in the 7 million and the 31 million that Mr.
15 Feldschmid referred to; does any of that constitute
16 architectural fees, engineering fees, planning costs for the
17 building?

18 MR. VINCE WARDEN: Yes.

19 MR. JURGEN FELDSCHMID: Once the building
20 goes into service and presumably there's some payment -- once
21 it goes into service, some portion of payment towards it hits
22 the bottom line of income statement. Is that correct?

23 MR. VINCE WARDEN: Well, again, like any

24 other capital asset, once it goes into service it's
25 amortized, depreciated over it's -- it's estimated useful

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1 life and that's when it'll hit the offering statement.

2 MR. JURGEN FELDSCHMID: The financing -- I
3 mean the -- the building -- the cost of building the
4 building, would be financed. Is that not correct?

5 MR. VINCE WARDEN: We would most like borrow
6 the money necessary construct the facility, yes.

7 MR. JURGEN FELDSCHMID: And, as you borrow
8 that money to pay for the building project as it -- as it
9 goes along, are you not increasing your overall debt and
10 therefore increasing, at least to some degree, your overall
11 financing expense in those periods as you -- as you go
12 through them?

13 MR. VINCE WARDEN: Well we are, but that's
14 charged to capital -- charged to the capital project until
15 such time as it's placed in service. And financing costs are
16 just like labour expense, or any other cost that's incurred
17 to bring an asset into service and -- and that will form part
18 of the depreciation that is charged to repairs.

19 MR. JURGEN FELDSCHMID: But on the -- on the
20 financing cost side, as you have to come up with money to pay
21 for the project, can an -- is it not correct that there has
22 to be some upward pressure on the financing expense through
23 the years in which the building is being built?

24 And if so, is there any magnitude that can be
25 indicated by the Panel as to what that might be as the

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1 building is being built. In -- in a year, for instance,
2 where \$30 million, for instance, might have to be expended on
3 a project.

4 MR. VINCE WARDEN: No, there's no impact on
5 financing expense that's charged to operation during the
6 period of construction. It's all charged to capital and
7 deferred until the -- the building is -- is placed in service
8 or occupied.

9 MR. JURGEN FELDSCHMID: Thank you for that.
10 Some of the questions I'm about to lead into,
11 Ms. Ramage, are based on -- on areas of confidence as I
12 understand of Mr. Cormie, and I understand -- and I see he's
13 -- he's not here. And I'm wondering if there's any
14 information on when he might be here, or?

15 MS. PATRICIA RAMAGE: Mr. Feldschmid the --
16 the last word I had on Mr. Cormie was that his flight was --
17 was landing this morning. I understand that may not be
18 accurate in terms -- it may have even been earlier. We're

19 not quite sure of the status but I would suggest that you go
20 ahead with your -- your questions.

21 Mr. Surminski can attempt to answer and if Mr.
22 Cormie does in fact arrive, we'll deal with it that way. Or
23 alternatively, we will have Mr. Cormie go back if there's a
24 question Mr. Surminski's unable to answer.

25 MR. JURGEN FELDSCHMID: Thank you.

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1 (BRIEF PAUSE)

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3 MR. JURGEN FELDSCHMID: I'm just going to
4 turn to the issue of gas prices and import prices and -- and
5 I -- first of all, my question will sort of operate on the --
6 on the assumption that they're -- they're somewhat
7 interchangeable or somewhat related to the same thing in that
8 they are alternatives to hydro-generation or replace hydro-
9 generation when flows are low. Is that correct?

10 MR. HAROLD SURMINSKI: Yes, in -- in
11 Manitoba. But natural gas prices in the US do influence the
12 -- the market price of electricity there.

13 MR. JURGEN FELDSCHMID: Right. So the -- the
14 influence of gas is not only in terms of what hydro itself
15 burns, say at the turbine in Brandon, but also in terms of
16 the import prices it would have to pay when it -- when it
17 imports electricity from say the US. Is that correct?

18 MR. HAROLD SURMINSKI: That's correct, yes.

19 MR. JURGEN FELDSCHMID: Now, I -- I
20 understood, I think it was Mr. Cormie in fairness, to say, in
21 his testimony on June 14th and I can refer to page 224,
22 around line 15, that the costs of replacing generation --
23 hydro-generation last year was -- is higher this year than it
24 was last year. And it wasn't -- it wasn't clear to me from
25 the transcript, whether he's talking about gas necessarily or

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1 import costs necessarily, or some combination of the two (2).

2 I'm just wondering if -- if I can confirm
3 whether I understood you correctly, are import prices and/or
4 gas prices higher say now, than they were approximately a
5 year ago?

6 MR. HAROLD SURMINSKI: Yes, the -- the natural
7 gas prices have continued to be high, and -- and as a result,
8 the -- the US prices, especially for this time of year are --
9 are very high, and probably higher for a shoulder month, than
10 you know, than they were last year.

11 MR. JURGEN FELDSCHMID: Now, let's -- I just
12 want to walk you through some of the evidence that we already
13 have on the record here and see if in fact that's true. And

14 I direct the Panel to Exhibit MH-15 please.

15

16 (BRIEF PAUSE)

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18 MR. JURGEN FELDSCHMID: You have it in front
19 of you now?

20 MR. HAROLD SURMINSKI: Yes, I do.

21 MR. JURGEN FELDSCHMID: And this -- just so
22 we're -- assuming I'm keeping track of my exhibits properly,
23 this is an update to PUB/MH-II-59, correct?

24 MR. HAROLD SURMINSKI: Yes, that's what I
25 have.

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1 MR. JURGEN FELDSCHMID: And I just am going
2 through the comparison of February '03 to February '04, March
3 '03 to March '04 and April '03 to April '04, in terms of the
4 average price in Canadian dollars per megawatt hour.

5 And I note for instance, that in February '03,
6 the price per megawatt hour was 52.8, in February '04 it was
7 47.38, in March '03 it was 59.5, in March '04 the average was
8 38.4, in April '03, it was 39.06 and in April '04 it was
9 35.06. Do you see those numbers?

10 MR. HAROLD SURMINSKI: Yes, I do. And they do
11 appear lower this year than last year.

12 MR. JURGEN FELDSCHMID: Yes. So...

13

14 (BRIEF PAUSE)

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16 MR. JURGEN FELDSCHMID: Sorry, is there a
17 further clarification you wanted to make on that observation?

18 MR. HAROLD SURMINSKI: Well, yes, the clarify
19 -- or the additional information is demand charges are not
20 included in this, but normally on -- on imports, we -- we do
21 not have demand charges. We did I think some earlier months.

22 MR. JURGEN FELDSCHMID: I -- I seem to recall
23 from the questioning by Board Counsel, that there was going
24 to be some sort of a document prepared that might somehow
25 incorporate the demand charges on this schedule, am I correct

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1 on that?

2 MS. PATTI RAMAGE: No, I -- my recollection
3 is, and again, it would be helpful if Mr. Cormie was here to
4 confirm this, but the -- a document incorporating demand
5 charges would be providing commercially sensitive information
6 into the public forum, and therefore it would not be filed in
7 the public matter.

8 MR. JURGEN FELDSCHMID: Very well.

9

10 CONTINUED BY MR. JURGEN FELDSCHMID:

11 MR. JURGEN FELDSCHMID: Let's then just work
12 then what we've got. The general implication, at least
13 comparing these three (3) months between those two (2) years
14 is that prices of import power have actually come down a
15 little bit, is that correct?

16 MR. HAROLD SURMINSKI: Yes, that's correct.

17 MR. JURGEN FELDSCHMID: And the reason that I
18 -- I find this important is that one (1) of the
19 justifications that Mr. Cormie, and I think you as well, Mr.
20 Surminski, I want to get the pronunciation correct of course,
21 is that part of the justification in maintaining a reservoir
22 levels and reservoir power in Lake Winnipeg and the other
23 water reservoirs that Manitoba Hydro has, is that there was a
24 benefit in that it's now available to generate hydro at a
25 time when these replacement power costs were -- are even

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1 higher.

2 But in fact it was at least with respect to
3 these months, that's not the case, it's actually lower now
4 and it was higher back then, correct?

5 MR. HAROLD SURMINSKI: Yes, but I think as I
6 recall, Mr. Cormie went on to say that the -- that this is
7 not the end of the story, we cannot really judge what the
8 value of water and storage will be, because it really is just
9 still in storage, and it'll take a year or probably in that
10 time period, before we really know what -- what we did with
11 that -- that water in storage. We don't -- we don't sell it
12 off immediately, it's -- it's still there, and it depends on
13 the future stream flows.

14 Only if we actually spilled, if we actually
15 had excess stream flows, where we could not utilize all our
16 water, then -- then it's a waste, otherwise it's -- it's in
17 storage and it's premature to judge right now, what the value
18 of that is.

19 MR. JURGEN FELDSCHMID: Thank you for that.
20 Moving then to the issue of -- of gas prices, and I just want
21 you to take a look at an IR from MIPUG-I-4B.

22

23 (BRIEF PAUSE)

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25 MR. JURGEN FELDSCHMID: Just let me know when

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1 you have that in front of you?

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(BRIEF PAUSE)

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MR. HAROLD SURMINSKI: That is 4B with a graphic?

MR. JURGEN FELDSCHMID: That's correct. Now, I'm just wondering, and it may not be the case, and you may not be comfortable with this particular graph, but is this what is represented here, a good reflection of the gas prices that Manitoba Hydro was facing through this period, that's shown in the graph?

MR. HAROLD SURMINSKI: Yes, for -- for purchases of import energy and that aspect of operations.

MR. JURGEN FELDSCHMID: And I just -- on the left hand vertical axis, it's showing US dollars per MN/BTU. What is that exactly?

(BRIEF PAUSE)

MS. LYN WRAY: I think it's thousands of -- millions of British Thermal Units.

MR. JURGEN FELDSCHMID: And is -- is that unit equivalent to what Mr. Cormie I think was referring to, which is a decitherm?

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MR. HAROLD SURMINSKI: Yes, generally they're -- they're very nearly equivalent, and I don't know exactly which one (1) is larger or smaller, but they're almost interchangeable for -- we're talking about general prices.

MR. JURGEN FELDSCHMID: Thank you. And I'm just wondering, again, looking at that graph, my general reading of it is that for instance, in January '03, the gas price per decitherm, to use Mr. Cormie's unit, was approximately five and a half (5 1/2) dollars in '04 of January, it's at six ten (6.10), there was in fact a spike to nine dollars (\$9) in February '03, whereas it remained somewhere around five dollars and eighty cents (\$5.80) in February '04.

And again, would you agree with me, I don't see this strong trend that Mr. Cormie seemed to refer to about, well, they were high in '03, but they're even higher now, so we're glad we held onto this water in storage, because now we can defray these even higher thermal costs. Do you agree with me on that?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: I have another chart in front of me which is the -- the Nimex/Henry Hubb (phonetic) prices from January '03 on and, in fact, they --

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1 they are lower. They are in the five dollar (\$5) range and
2 then quite consistently until early '04 and they climb to
3 where they are now at nearly six dollars (\$6) or six, fifty
4 (6.50) actually.

5 So I cannot explain the futures prices in --
6 in the 4B relative to the -- the Henry Hubb prices here.
7 They are inconsistent.

8 MR. JURGEN FELDSCHMID: Is it "Henry Hubb";
9 is that correct?

10 MR. HAROLD SURMINSKI: It's Henry Hubb, yes.

11 MR. JURGEN FELDSCHMID: And that's the spot
12 market price as opposed to the futures price that we see in
13 MIPUG first round 4B?

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15 (BRIEF PAUSE)

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17 MR. HAROLD SURMINSKI: What I -- you know,
18 what the earlier until current -- until actually January '04
19 on this, they were the historical, the actual prices at the
20 Henry Hubb location that I'm quoting.

21 MR. JURGEN FELDSCHMID: I'm not sure I
22 understand you. In MIPUG-I-4B there is one, sort of, dark
23 coloured chart line that goes to, I think, around March or
24 April of this year and you're telling me those are the actual
25 prices for natural gas in North America through that period;

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1 is that correct?

2 MR. HAROLD SURMINSKI: Yes. That's what they
3 would have been.

4 MR. JURGEN FELDSCHMID: And then the lighter
5 coloured line thereafter are projected costs based, I
6 suppose, on the futures market or something?

7 MR. HAROLD SURMINSKI: That's right.

8 MR. JURGEN FELDSCHMID: Yet, the chart that
9 you're reading off right now, first of all, let me ask you,
10 the chart -- the Henry Hubb chart that you've been just
11 reading off; is that anywhere in the record?

12 MR. HAROLD SURMINSKI: No, that is not.

13 MR. JURGEN FELDSCHMID: I'm wondering if we
14 could have an undertaking to have a copy of that filed?

15 MR. HAROLD SURMINSKI: Yes, I can undertake
16 to do that.

17

18 --- UNDERTAKING NO. 23: To file Nimex/Henry Hubb Chart.

19

20 CONTINUED BY MR. JURGEN FELDSCHMID:

21 MR. JURGEN FELDSCHMID: So you're saying that
22 that chart, the Henry Hub Chart that you're looking at is at
23 odds with the actual historical numbers that are reflected in
24 the graph in the MIPUG interrogatory?

25 MR. VINCE WARDEN: Mr. Feldschmid, the prices

1 going forward are very dynamic. Like, if you take -- if you
2 look at that chart from week to week to week, they're going
3 to be different. The actual prices though going backwards,
4 there is a North American market now for natural gas such
5 that whether it's at Henry Hubb or at AECO (phonetic) or
6 anywhere in North America, the price is going to be
7 relatively the same.

8 So I'm not sure whether you're drawing your
9 conclusions from the forward spot price or from the
10 historical price but going forward the prices could be very
11 different depending on when -- when you pull off that price.

12 MR. JURGEN FELDSCHMID: Well, first of all,
13 in terms of the MIPUG, because I don't have the Henry Hubb
14 chart in front of me, but I've got the MIPUG graph as the
15 answer to the MIPUG IR in front of me, and I am looking at
16 the historical portion of that graph and what I'm suggesting
17 is that it is not accurate to say that natural gas prices
18 were significantly higher in '03 than they are right now and,
19 in fact, it could even be argued, particularly looking at the
20 spike in February '03 on this graph, that gas prices are
21 actually a little bit lower right now?

22 MR. VINCE WARDEN: Well, you really have to
23 look at the trend and there was a spike in February of '03,
24 you're absolutely correct, but then they came down and -- but
25 the trend has been, generally speaking, from '03 to '04 the

1 trend has been in a slightly upward direction.

2 MR. JURGEN FELDSCHMID: Is it the expectation
3 of the Corporation that the price of natural gas is going to
4 tend to go up over the next two (2) or three (3) years?

5 MR. VINCE WARDEN: We only know what's, you
6 know, in the forward market, gas prices are -- are very
7 unpredictable. We, for purposes of planning, we do look at
8 what we expect gas prices to be over the very long term but
9 the short term is extremely volatile and unpredictable.

10 MR. HAROLD SURMINSKI: Just where you're
11 going with that whole line of questioning, you're -- you're
12 point was that the value of that water in storage may not --
13 we may not recover the value of that, but I think you're
14 missing the whole point. The point is -- was insurance.

15 We -- we undertook maintaining that water in
16 storage as a -- as an insurance policy to -- to protect
17 ourselves against future drought. You never expect to -- to
18 recover your insurance premiums. So it's basically, if there
19 is a cost then -- and normally there would be a cost. We
20 probably would be purchasing at premium prices and not

21 expecting to recover.
22 If -- if we are actually going to recover and
23 even -- even gain more, it's probably fortuitous as opposed
24 to planned. Normally it's -- it's an insurance policy and we
25 don't expect to recover that.

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1 MR. JURGEN FELDSCHMID: Thank you for that.
2 I just want to indicate and again, I don't wish to be unfair
3 to the Panel because Mr. Cormie is not here, but my review of
4 the transcript indicates that on his June 15th testimony, on
5 page 360, line -- approximately line 6, Mr. Cormie indicated
6 that his expectation, at least over the -- the longer term,
7 is that gas prices will go down.

8 I also note that in your electrical load
9 forecast for year ending '04 through year ending 2024, which
10 is at Appendix 6-1 of Volume 2, is an indication that the --
11 one (1) of the assumptions for the load forecast is that real
12 price of natural gas is expected to drop 12 percent over the
13 next three (3) years, of the forecast.

14 So, and maybe this is just reflection of -- a
15 volatile -- a volatile commodity but there seems to be mixed
16 signals on where gas is going, where it was last year
17 compared to this year.

18 MR. VINCE WARDEN: Well, Mr. Feldschmid, I
19 don't think that's inconsistent with anything we've said.
20 Like we -- we have a long term forecast, but we're saying the
21 very short term, month to month forecast, is volatile. And
22 over this past year, there's been a slight upward trend.

23 In the long term, we do expect, in accordance
24 with our economic outlook, we expect gas prices will
25 stabilize and move downwards -- but -- from where they are

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1 today, but in the short term it's -- the gas market remains
2 very volatile.

3 MR. HAROLD SURMINSKI: Yes, I can confirm
4 that. In our estimates for future generation costs, we do
5 forecast significantly lower gas prices three (3) years out
6 then -- then levels currently being shown here.

7 MR. JURGEN FELDSCHMID: Thank you. Let me
8 turn for a moment to the issue of imports.

9 On a rough percentage basis, when we're
10 importing electricity, where is it coming from? I -- I take
11 it, it all comes from within MAPP. Is that correct?

12 MR. HAROLD SURMINSKI: Generally, yes. Its
13 -- its transmission constraints are -- are quite extreme in
14 that we are not able to -- to extend outside MAPP so
15 theoretically it might be possible, but there really -- MAPP

16 is -- is quite a separate area and not greatly interconnected
17 to -- to surrounding areas.

18 MR. JURGEN FELDSCHMID: And, so therefore,
19 effectively just -- just to get some familiar political
20 geographical names on -- on the record. Are we talking about
21 importing from utilities that are operating in North Dakota and
22 Minnesota, primarily?

23 MR. HAROLD SURMINSKI: Primally, but it does
24 extend a -- a little further than that, but north MAPP --
25 MAPP generally can be divided into a northern area in the

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1 southern end, so north MAPP and Minneapolis and generally
2 around that area is -- is the primary source of our import.

3 MR. JURGEN FELDSCHMID: And what about
4 Saskatchewan or Ontario? Do we have any power coming in from
5 either of those two (2) sites?

6 MR. HAROLD SURMINSKI: No, nothing
7 significant on the import side.

8 MR. JURGEN FELDSCHMID: And I recall Mr.
9 Cormie, in his testimony, indicating again this distinction
10 that you've just made about constraints to not just MAPP but
11 Northern -- Northern part of MAPP and one (1) of the comments
12 that struck me that he made that if Manitoba Hydro's appetite
13 for imports becomes large enough that it is such a large
14 consumer of import power from the Northern MAPP area, that it
15 can actually have an upward effect on -- on prices, is that
16 correct?

17 MR. HAROLD SURMINSKI: Yes, it definitely
18 showed up last year in that Manitoba Hydro does influence the
19 -- the price of power, whenever we have large demands for
20 imports.

21 MR. JURGEN FELDSCHMID: Is that type of a
22 dynamic the way it occurred last year, been seen before by
23 Manitoba Hydro?

24 MR. HAROLD SURMINSKI: No, because we -- we
25 had not been in a position of importing large quantities.

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1 MR. JURGEN FELDSCHMID: Was it anticipated by
2 Manitoba Hydro, as we headed into the drought conditions,
3 that this -- this dynamic was going to occur?

4 MR. HAROLD SURMINSKI: I would say -- I would
5 have to say not to this degree. We do have a price volume
6 relationship, where the price does go up with increasing
7 volumes, but what we actually saw over the last year was --
8 was greater than we had anticipated.

9 MR. JURGEN FELDSCHMID: And I recall again
10 from Mr. Cormie's testimony at page 466, line 21, he referred

11 to the term of shortage pricing, how that the extent of the
12 shortage pricing, the extent to which the pricing went up,
13 because of a shortage, was -- was higher than anticipated by
14 Manitoba Hydro?

15 MR. HAROLD SURMINSKI: Yes, and I can confirm
16 that it's my opinion, because in my forecast I do -- we do
17 work together and that we have you know, a price volume
18 relationship in our forecast, and if we look at that, what we
19 saw over the last year is greater than what we would have
20 forecast.

21 MR. JURGEN FELDSCHMID: And just looking at
22 this aspect of -- of what happened over the last year or so,
23 knowing what you know in terms of the shortage pricing that
24 occurred, in your opinion would the Corporation or ought the
25 Corporation, placed in a similar situation in the future,

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1 ought to make different decisions in terms of how much of its
2 reservoir power it taps into, to avoid those types of high
3 import costs?

4 MR. HAROLD SURMINSKI: We certainly will --
5 will incorporate that further information. As I had
6 indicated in -- in my direct evidence, we will be, for
7 example, increasing the estimated cost of our drought,
8 because our import costs from this experience will be higher
9 than -- than previous forecasts.

10 So, this is -- I do it from the planning
11 perspective, and, Mr. Cormie, from the operating perspective,
12 will also consider higher import costs, and -- and the
13 balance now between how much you import, and -- and it also
14 may -- well, it's a balance between do you generate your own,
15 or do you import, but if natural gas prices are high, the two
16 (2) are -- are pretty equal anyways.

17 But it is a balance against how much you put
18 in storage, and how much risk you want to take. Risk in --
19 in having future brown outs and shortages of power.

20 MR. JURGEN FELDSCHMID: Turning to the issue
21 of importing versus using gas fired generation within
22 Manitoba. I understood Mr. Cormie to say that by and large,
23 Manitoba -- Manitoba Hydro was favouring imports over
24 generating its own gas powered thermal generation, because of
25 the high cost of -- of gas, is that correct?

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1 MR. HAROLD SURMINSKI: Yes, that's correct.
2 In our plans we've -- we've had the option of -- of using our
3 natural gas plants, but they are rather inefficient plants,
4 and they're -- they're a simple cycle. So, they're not
5 efficient for producing continuous supplies of power.

6 Our plants are there more for peaking
7 purposes. So, it became more economic, we could always
8 purchase at a lower cost, than generating at our own plants.

9 MR. JURGEN FELDSCHMID: When you're talking
10 about the cost of long runs on -- on gas powered thermal
11 being inefficient, I take it you're -- you're talking about
12 the combustion turbine in Brandon?

13 MR. HAROLD SURMINSKI: Yes, and -- and the
14 Selkirk Plant, they are about the same efficiency.

15 MR. JURGEN FELDSCHMID: I'm wondering though,
16 why it is that the imports would necessarily be cheaper, I'm
17 assuming that a lot of the generation that is providing the
18 import power from Minnesota and North Dakota is thermal
19 generation, is that correct?

20 MR. HAROLD SURMINSKI: Yes, it is, but it --
21 it is for more efficient natural gas turbines, as well as
22 there are coal plants that could be surplus in different
23 hours, and the coal plants are definitely producing energy at
24 -- at much lower prices than the gas.

25 MR. JURGEN FELDSCHMID: Well, how is it that

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1 utilities in North Dakota and Minnesota have more efficient
2 gas fired thermal generation than we do?

3 MR. HAROLD SURMINSKI: Well normally thermal
4 utilities would -- would have a certain proportion of their
5 system in a combined cycle, combustion turbines, which --
6 which would operate fairly significant -- for fairly
7 significant durations of -- of maybe 20 or 30 percent or even
8 higher, whereas we -- we chose ours based on operation of --
9 of 10 percent of the time and less.

10 So, whenever a utility requires an
11 intermediate supply of power, you can think of peaking power,
12 intermediate and -- and offbeat, an intermediate supply of
13 power each -- at such utilities will -- will use combined
14 cycle combustion turbines.

15 MR. JURGEN FELDSCHMID: And the reason we have
16 a simple cycle is -- is because the anticipation that it
17 would just be used for very short periods of time, 10 percent
18 of the time overall, just to cover peak load, as opposed to a
19 thermal system, because our -- because our base is provided
20 by hydro electric power, whereas in a -- in a full thermal
21 system, you would have some plants that are meant to be in
22 almost continuous operation, and then perhaps some other
23 plants to give peaking capacity?

24 MR. HAROLD SURMINSKI: Yes, that's right. And
25 -- and our -- whenever a drought comes along, we may require

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1 operation for a year at a time, but we expect it one (1) in
2 ten (10) years or one (1) in twenty (20) years. So, the
3 frequency, and relative infrequency of the use, makes it
4 economic to -- to utilize our simple cycle turbines.

5 MR. JURGEN FELDSCHMID: And so the -- the
6 reason we can import more cheaply is because the generation
7 is from these -- I'm not sure what you said, two (2) cycle or
8 double cycle plants, which can operate for longer periods of
9 time more efficiently, is that correct?

10 MR. HAROLD SURMINSKI: Yes, combined cycle
11 plants.

12
13 (BRIEF PAUSE)

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15 MR. JURGEN FELDSCHMID: Now, in addition, and
16 I have a reference for this statement, being MIPUG-I-7-C. My
17 understanding, according to hydro information, is that coal
18 -- coal fired generation within Manitoba is even cheaper than
19 importing thermal energy, is that correct?

20 MR. HAROLD SURMINSKI: Yes, this is coal fired
21 Manitoba Hydro generation?

22 MR. JURGEN FELDSCHMID: Yes.

23 MR. HAROLD SURMINSKI: Yes.

24 MR. JURGEN FELDSCHMID: And you would agree
25 with me that there has been a significant move, both in terms

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1 of creating new capacity in the form of the Brandon
2 combustion turbine, and also the conversion of the Selkirk
3 Generating Station to gas, and there's been a significant
4 movement to gas fired thermal generation within Manitoba
5 Hydro, say over the last five (5) years?

6 MR. HAROLD SURMINSKI: Yes, generally from --
7 from essentially zero. We -- we did not use gas, except for
8 start up before that. So, it has been a significant move.

9 MR. JURGEN FELDSCHMID: And for instance, in
10 the term -- in terms of the conversion of the Selkirk Plant
11 from coal to gas, you essentially converted -- I think it's
12 about 121 megawatts of capacity from coal generation to -- to
13 gas generation, is that correct?

14 MR. HAROLD SURMINSKI: Yes, that's correct.

15 MR. JURGEN FELDSCHMID: And so therefore,
16 Manitoba Hydro's ability to generate thermally within
17 Manitoba, using coal, is reduced now from what it was say
18 five (5) years ago?

19 MR. HAROLD SURMINSKI: Yes, that's correct.

20 MR. JURGEN FELDSCHMID: I'm wondering if it's
21 possible to provide any sort of a calculation of -- of what
22 the replacement energy costs -- when I say "energy" I mean
23 that generically not just in terms of energy bills in terms
24 of demand, the overall cost Hydro would have faced in this
25 drought period had that coal-fired capability still been in

1 place and they could have replaced both gas-fired and import
2 with cheaper coal-firing within Manitoba?

3

4

(BRIEF PAUSE)

5

6

7 THE CHAIRPERSON: Mr. Feldschmid, are you
8 asking Hydro whether the conversion of coal to gas at Selkirk
9 and Brandon has turned out to be an economically unwise move?

9

MR. JURGEN FELDSCHMID: I am.

10

11 MR. VINCE WARDEN: We can tell you right now
12 that coal would have been a cheaper alternative but
13 environmentally it would cause issues for us that we felt
14 were not sustainable.

14

15 CONTINUED BY MR. JURGEN FELDSCHMID:

16

17 MR. JURGEN FELDSCHMID: I appreciate that,
18 Mr. Warden, I'm just wondering if the calculation could be
19 done to get some sense of what the added cost -- what the
20 incremental cost has been having to rely on import and gas-
21 fire as opposed to if the coal capacity at Selkirk had been
22 available during this period?

22

23 MR. HAROLD SURMINSKI: I can undertake to
24 give you a rough estimate, thinking of prices going from
25 twenty dollars (\$20) a megawatt hour on coal to -- to fifty
dollars (\$50) a megawatt hour for import, that's a twenty-

1 five dollar (\$25) a megawatt hour differential.

2

3 And on about 1,000 gigawatt hours, I'd say
4 that would be the operation over an entire year so it could
5 be about \$25 million of differential.

5

6 MR. JURGEN FELDSCHMID: Thank you for that.
7 And given the relative costs of these various sources of
8 generation, I take it that the Brandon coal station has been
9 going virtually full tilt through this drought period; is
10 that correct?

10

11

(BRIEF PAUSE)

12

13

14 MR. HAROLD SURMINSKI: Yes. I'm informed
15 that generally, with the exception of outages, during the
16 drought period Brandon coal plant was operating most of the
17 time.

17

18 MR. JURGEN FELDSCHMID: Is it possible to
19 provide some sort of a schedule or percentage breakdown of
20 when it's been -- when it was operating through the drought
21 period?

21

22 MR. HAROLD SURMINSKI: I recall the numbers
23 were in somewhere in our submissions but we can dig those out
for you and provide them again.

24

25 --- UNDERTAKING NO. 24: To provide a schedule or

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1 percentage breakdown of when
2 Brandon coal station has been
3 operating through the drought
4 period.

5
6 THE CHAIRPERSON: Mr. Feldschmid, in view of
7 the time, and in no means wanting to rush you through to a
8 conclusion, is there a time coming we could break to have the
9 MIPUG presentation?

10 MR. JURGEN FELDSCHMID: Alas, I'm no better
11 than My Learned Friend Mr. Peters, at estimating my time.
12 Perhaps even worse. Yes, a break would be fine.

13 THE CHAIRPERSON: Ms. McCaffrey, perhaps in
14 about one (1) minute you could introduce the presenter.

15 MS. TAMARA MCCAFFREY: I will, thank you.

16

17 --- Upon recessing at 11:34 a.m.

18 --- Upon resuming at 11:37 a.m.

19

20 THE CHAIRPERSON: Ms. McCaffrey do you want
21 to introduce the presenter?

22 MS. TAMARA MCCAFFREY: Certainly, Mr. Chair,
23 thank you. With me today is Mr. Bill Turner from Nexen
24 Chemicals in Brandon. He's the plant manager there. And
25 without further ado I will turn the microphone over to him.

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1 MR. BILL TURNER: Mr. Chairman, and Members
2 of the Board, my name is Bill Turner and I'm the plant
3 manager at Nexen Chemicals Limited Partnership in the Brandon
4 Plant.

5 Since November of 2000, I've taken and been
6 the Chairman of the Manitoba Industrial Power Users Group.
7 MIPUG membership currently consists of the following
8 companies: Nexen, INCO-Manitoba, Hudson Bay Mining and
9 Smelting, Erko (phonetic) Worldwide, Enbridge, Tolko Manitoba
10 Craft Papers (phonetic), Simplot Canada and Griffin Canada.

11 We would like to thank you for the opportunity
12 to address you today. We would also like to -- to welcome
13 you, Mr. Chairman, to the Board and also Board Member Evans.

14 MIPUG is an association of major industrial
15 companies operating in Manitoba. The purpose of the
16 association -- pardon me -- the purpose of the association is
17 to work together on issues of common concern related to
18 electricity supply and rates in Manitoba.

19 To that end, MIPUG has participated as in
20 Intervenor in each of the Board's reviews of the hydro rates
21 since 1998 -- 1988. As well as the Board's review of the
22 Centra Gas Acquisition in 1999, and Hydro's major capital
23 projects in 1990.

24 At the last rate hearing, we explained that in
25 each case, power costs are very important to the continued

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1 growth and operation of the MIPUG member companies. Also, we
2 emphasize the fact that MIPUG members compete in a global
3 market place.

4 If we are to remain competitive, electricity
5 rates in Manitoba must help off-set some of the geographic
6 and climatic disadvantages we face. This means predictable
7 firm power rates for industrial customers that reflect the
8 costs of providing service.

9 We're well aware that our members currently
10 pay rates that are about 14 percent more than it costs to
11 provide them with service, or about \$27 million a year in
12 extra operating costs.

13 Addressing this disparity would help to
14 encourage competitiveness and growth in Manitoba in each of
15 our industries.

16 This was part of the rationale put forward as
17 the basis for the recent 2 percent rate decrease to our
18 members. A move in the right direction and an important
19 signal to our members that Manitoba remains committed to fair
20 rates for industrials.

21 Fair rates that reflect Hydro's costs and
22 diligent attention to ensuring those costs are as low as
23 possible while maintaining a financially health utility are
24 an essential part of ensuring that Manitoba companies can
25 continue to survive and grow.

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1 This is critical in maintaining and enhancing
2 the long term investments, jobs and other benefits that come
3 from having these operations in Manitoba.

4 MIPUG companies annually produce, or purchase,
5 about four thousand (4,000) gigawatt hours of electricity at
6 a cost of well over \$100 million. In total, MIPUG members
7 employ over forty-five hundred (4,500) people. Of a
8 replacement value of their assets in Manitoba of over 2
9 billion and sell over 90 percent of the products they produce
10 outside of Manitoba.

11 Many of Manitoba's communities and workers
12 depend on our continued survival and growth and we've all
13 seen the consequences of the alternative, such as Lake

14 Rapids.

15 Unfortunately, we had planned to have Mr.
16 Wayne Schroeder from INCO join me here today. But due to
17 health reasons, he's been unable to make the trip down from
18 Thompson.

19 I'll switch hats a little bit and try and
20 relay the topics that he was wanting to discuss to you and
21 hopefully you'll be able to appreciate the range of his
22 concerns. I'll be happy to answer any questions that -- from
23 the Board after the presentation.

24 First of all, I'll put on my Nexen hat and
25 with respect to my own operations in Brandon, our need for

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1 reliable cost-effective electrical energy, is one (1) of the
2 most critical factors to our industry.

3 Nexen, uses an electrolytic process to produce
4 sodium chloride which is used to bleach wood pulp. This
5 process requires considerable electrical energy and in fact,
6 60 percent of our manufacturing cost is the cost of
7 electricity, which about \$30 million a year.

8 Nexen exports all of its products outside
9 Manitoba, and approximately 95 percent of it goes to the
10 United States. The North American market for our product is
11 very, very competitive.

12 Nexen operates one (1) plant in each of BC,
13 Alberta, Manitoba, Ontario, Quebec and Brazil.

14 In times when the industry is not operating at
15 a 100 percent capacity, the plants with the lowest costs of
16 production run full load, and the plants with the highest
17 costs of production are cut back.

18 Our Brandon plant competes with our external
19 customers, our competitors, pardon me, and with the other
20 Nexen Sodium Chloride Plants.

21 The competitiveness of any sodium chloride
22 producer can be assessed easily with only three (3) key
23 considerations. Power costs and availability, salt price and
24 availability and transportation to markets.

25 Of the three (3) factors, power is the most

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1 important because of the large amounts of power required for
2 electrolysis.

3 Electricity is a feedstock, just like natural
4 gas is a feedstock for the fertilizer industry. Nexen has
5 been producing sodium chloride in Brandon since 1968, at that
6 time the plant started at an annual rate of twelve thousand
7 (12,000) tonnes.

8 Through several upgrades, incremental

9 expansions and a major expansion that was completed in 2002,
10 approximately \$50 million was spent, and we actually
11 increased production by seventy thousand (70,000) tonnes per
12 year.

13 We currently manufacture in excess of a
14 hundred and ninety-five thousand (195,000) tonnes per year.

15 This now makes us one (1) of the largest
16 sodium chloride plants in the world. We're currently in the
17 process of relocating a plant in Louisiana, this was a plant
18 that was owned and operated by ourselves, to Brandon, due to
19 the high cost of electric energy in the US.

20 Once completed, this will make the Brandon
21 Plant, the largest sodium chloride producer in the world.
22 This expansion project is a major commitment of capital
23 dollars and time. The main reason the recent expansion was
24 awarded to the Brandon facility was the fact that Manitoba
25 has a history of very stable and cost effective power rates.

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1 This has been a positive factor in convincing
2 our Board of Directors, that expansion should occur in
3 Manitoba.

4 Nexen may not be the biggest company in
5 Manitoba, but we have a quality committed work force of
6 fifty-eight (58) people. Skilled workers with good jobs who
7 play important roles in the Brandon community. We view our
8 place in the community with pride, helping support our
9 families, pay taxes and provide opportunities to train people
10 to find employment in the western region.

11 I should also note that Nexen is one (1) of
12 Manitoba Hydro's largest DSM participants, offering about 120
13 megawatts of load, that can be curtailed by Hydro on very
14 short notice. These programs have developed over a number of
15 years by working closely with Hydro, as a participant in the
16 Curtailable Rates Monitoring Committee.

17 Through solid communication, the work of this
18 form of Committee addressed the issues and concerns of both
19 parties, quickly and amicably, and the program is now one (1)
20 of the most successful conservation programs Hydro offers,
21 providing benefits to both Nexen and all of the other
22 customers on Hydro's system. Nexen appreciates working with
23 Manitoba Hydro cooperatively in this manner.

24 Unfortunately with Mr. Schroeder not being
25 here, I'll try to relay his comments today. As Mr. Schroeder

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1 cannot be here today, I'll take a moment to relay the main
2 points he was hoping to address.

3 Mr. Schroeder is the Chief Power Engineer at

4 INCO Thompson, which has been in operation in Thompson for
5 more than forty (40) years. INCO employs about fifteen
6 hundred (1,500) people in Thompson.

7 It is quite unfortunate that Mr. Schroeder is
8 not here, as he has a very compelling example that he uses to
9 emphasize the importance of power costs to his industry, were
10 he here, he would likely have a piece of the Thompson geology
11 in front of him, and pose the question, is this valuable ore,
12 or just worthless rock?

13 It turns out that this is a trick question.
14 As a difference between rock and ore, he would point out it's
15 not geological, but economic. Ore is that material that can
16 be profitably mined to create nickel, jobs and industry.

17 The factors that determine the difference
18 include international competition, worldwide nickel demand,
19 and ultimately the price of nickel. Others include the grade
20 and accessibility of the ore body, the efficiency and cost
21 structure of the mining operation, and the productivity of
22 the work force.

23 For INCO in Thompson, electricity costs are a
24 key element of determining the availability of Ore. In
25 Thompson, INCO has a mature forty (40) year old ore body,

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1 with some of the mines nearing the end of their life. Mr.
2 Schroeder wanted to emphasize that INCO is doing everything
3 possible to extend the life of existing ore bodies, this
4 includes reducing mining costs so that rock can be turned
5 into ore.

6 The best example of the importance of
7 competitive cost structure was the story Mr. Schroeder
8 relayed the last time he was before the Board in 2002. At
9 that time he noted that in 2001, for the first time in its
10 history at Thomson, INCO was not able to provide enough of
11 its own mine production to fill the smelter.

12 And knowing this, they contracted outside feed
13 from a mine in Western Australia. From this mine, close to
14 Perth, Australia, this feed was shipped as concentrate by
15 rail to the coast then by ship to Quebec City, by rail to
16 Winnipeg and by truck to Thomson.

17 In 2002 the feed was about fifty-two thousand
18 (52,000) dry tonnes which is twenty (20) -- equivalent to 20
19 million pounds of nickel. Presently this makes economic
20 sense as Thomson's own mine production continues to decrease
21 and more of the business is processing external feed.

22 There are significant costs to transport this
23 material. Mr. Schroeder noted that this concentrate is
24 shipped right past several smelters to get to Thomson and one
25 of these smelters shut down for eight (8) weeks in 2002 due

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1 to lack of feed.

2 The only reason that INCO incurred the extra
3 costs to ship it to Thomson for processing was due to
4 Thomson's lowest cost structure including electricity costs.
5 This allowed Manitoba to capture the benefit in terms of
6 economic output and jobs.

7 Mr. Schroeder also wanted to ensure the Board
8 was aware of the achievements of INCO with respect to energy
9 conservation. Working with Manitoba Hydro's Smart Power
10 Department, INCO's Thomson operations have embraced energy
11 conservation with enthusiasm and, as a result, have achieved
12 significant cost savings and reductions in consumption.

13 The end result is that the operation is more
14 efficient and better able to compete. This conservation was
15 achieved at a very low cost to Hydro meaning that all
16 ratepayers benefit from INCO's energy conservation.

17 In closing, the industrial customers of
18 Manitoba Hydro have been well served by this utility in the
19 past. Hydro is a good company to deal with and we would not
20 want our comments to be read as criticism of the professional
21 and competent staff that Hydro employs.

22 Although we have been blessed in the past with
23 a good partner in Hydro, we're concerned with what appear to
24 be slow shifts over time to Manitoba Hydro's priorities away
25 from its domestic customers to its export sales. For

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1 industries that invest significant capital and resources in
2 Manitoba, the most important factor with respect to Hydro
3 rates is a stable and predictive price environment.

4 In that regard, we believe that Manitoba
5 ratepayers, in all classes, have been well served by having
6 Hydro's rates regulated by a competent and principled Public
7 Utilities Board.

8 Industrial customers, in particular, have seen
9 the havoc that arises when other jurisdictions in Canada and
10 the United States have veered off into this unregulated
11 market-driven or privatized environments where market forces
12 are put ahead of principled cost allocation and rate
13 stability.

14 I would ask the Board to consider the
15 presentations made by the Manitoba Power Users' Group in
16 light of the competitive challenges faced by Nexen and other
17 energy intensive industries in Manitoba and help us retain
18 our competitive position in Manitoba and in North America.

19 Dedication to providing reliable firm power at
20 fair and reasonable rates that reflect cost of service and
21 commitment to innovative rate options that benefit both
22 industry and Manitoba Hydro are important for the future
23 growth of large industry in Manitoba. Thank you very much.

24 THE CHAIRPERSON: Thank you, Mr. Turner.

25 MR. LEN EVANS: I thank you very much for the

1 presentation, it was very informative and I just want to
2 comment that I have a greater appreciation of the
3 contribution that your group makes to the Manitoba economy.
4 I especially like to hear about the exports out of Manitoba
5 because that brings money in. So that's very good. Thank
6 you.

7 MS. TAMARA MCCAFFREY: Mr. Chair, Members of
8 the Panel, that completes the presentation on behalf of MIPUG
9 this morning.

10 THE CHAIRPERSON: Thank you, Ms. McCaffrey.
11 Rather than go back to Mr. Feldschmid at this time, I think
12 we'll adjourn until 1:30 and then we can recommence. Thank
13 you again, Mr. Turner,

14
15 --- Upon recessing at 11:53 a.m.
16 --- Upon resuming at 1:34 p.m.

17
18 THE CHAIRPERSON: Ms. Ramage, you passed out
19 two (2) more undertakings, which we will turn into exhibit
20 numbers, Manitoba Hydro Undertaking Number 19, breakdown on
21 productivity and how it's related to the pension costs, I
22 suppose.

23 Is that exhibit -- what number are we at now,
24 23 or 24?

25 MS. PATTI RAMAGE: I believe it's 24.

1 THE CHAIRPERSON: Yes, Manitoba Hydro
2 Undertaking Number 19 is therefore Exhibit 24.

3
4 --- EXHIBIT NO. MH-24: Response to Undertaking 19.

5
6 THE CHAIRPERSON: Manitoba Hydro, Undertaking
7 Number 15, which has to do with Document 10 of the PUB speak
8 of documents, will be Exhibit Number 24 -- 25.

9
10 --- EXHIBIT NO. MH-25: Response to Undertaking 15.

11
12 MS. PATTI RAMAGE: And I -- I might add, Mr.
13 Chair, just for the record, the undertaking numbers listed
14 are Manitoba Hydro's undertaking numbers and won't
15 necessarily correspond with that in the transcript because it
16 appears that unless the word undertaking is used when the
17 request is made, it's not necessarily picked up in the
18 transcript and included in that numbering system. So they --
19 just to clarify why they don't match.

20 THE CHAIRPERSON: Yes, that explains our

21 earlier problem. I'll be more careful going forward.
22 Mr. Feldschmid ...?
23
24 CONTINUED BY MR. JURGEN FELDSCHMID:
25 MR. JURGEN FELDSCHMID: Thank you, Mr. Chair.

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1 That's -- the bidding at the moment, yes.
2 Mr. Cormie, I'm -- I'm glad to see you and I'm
3 sure Mr. -- Mr. Surminski's also glad because now I can stop
4 asking him to explain what you meant the other day and he can
5 stop answering those questions.
6 I'm going to move onto the issue of the
7 Selkirk Generating Station. And correct me if I'm wrong, but
8 I think I'm -- I'm stating recent history pretty accurately
9 to say that there was a conversion from coal fire to natural
10 gas fire, the total cost of that -- capital cost of that
11 conversion as 29.1 million. Is that correct?
12 MR. DAVID CORMIE: That's correct.
13 MR. JURGEN FELDSCHMID: I can recall touching
14 this ground back in the 2002 update process and I'll -- and
15 I'll touch on it again now because if -- if for no other
16 reason, there were certain things identified things then that
17 were sort of in process, regulatory speaking, that perhaps
18 have come to full fruition now.
19 I'm wondering, and if you want to do this by
20 way of a written undertaking, that's absolutely fine, but if
21 -- if we could have a complete outline of the statutory and
22 regularly requirements that led to Hydro taking the position
23 that they had to basically convert this station from a coal-
24 fired one (1) to a gas-fired one (1).
25 MS. PATTI RAMAGE: Mr. Chair, if I could

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1 interject at that point. To provide those -- what is
2 Manitoba Hydro's opinion was the legislative requirements to
3 -- to take any action, is in effect a request to provide
4 Manitoba Hydro's legal -- legal opinion. But I think perhaps
5 more importantly, I'm not sure how that advances the rate
6 case here, given that those conversions were in fact made,
7 and, at this point in time, is a given.
8 MR. JURGEN FELDSCHMID: I think the point
9 that I'm trying to illustrate for the Board is that, in -- in
10 the position of -- of my client, there is a certain lack of
11 rigour in terms of decisions that are made particularly
12 around environmental issues, emission issues.
13 And while on the one (1) hand we can all
14 understand the -- the -- and -- and to some degree, applaud
15 Hydro's commitment to being environmentally friendly, the --

16 the difficulty is that these -- these decisions do have cost
17 implications that -- that ultimately will show up in rates.
18 Whether it's a -- a capital expenditure like
19 the conversion of the Selkirk generating station. Or ongoing
20 operating costs such as converting it from coal to gas in a -
21 - in a period of time when gas is increasing in price and --
22 and making it a more expensive thermal fuel than -- than coal
23 was.
24 That -- those -- that's what I'm trying to
25 illustrate for the Board. I take my -- My Friend's comment

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1 in this regard -- if -- if anything, quite frankly, I was
2 perhaps giving the Panel an opportunity to -- to outline
3 having gone over the issue of gas costs versus coal costs,
4 that they are also -- beyond operating, there is also a
5 capital issue to this in terms of perhaps somehow the -- the
6 switch to gas is somehow justified because the capital costs
7 of making coal environmentally friendly were -- were so much
8 higher. I'm not sure.
9 But that -- if My Friend has very strong
10 objections to this line of questioning on the basis that this
11 has already been expended and it doesn't have any impact on a
12 go forward basis, I can certainly move on.
13 THE CHAIRPERSON: Please do.
14
15 CONTINUED BY MR. JURGEN FELDSCHMID:
16 MR. JURGEN FELDSCHMID: Mr. Surminski and now
17 that Mr. Cormie is here, he may want to chime in on this,
18 but, sir, you'll recall earlier we were discussing the coal-
19 fired station at Brandon and I was asking what type of
20 operation duration it was experiencing through the drought
21 period and I think you'd indicated it was quite high and that
22 you were going to provide some sort of schedule in terms of
23 what that had been through the drought period; do you recall
24 that discussion, Mr. Surminski?
25 MR. DAVID CORMIE: Sir, the generating

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1 station operated continuously through the drought period up
2 to earlier this spring when we shut it down except for
3 periods of maintenance outages.
4 MR. JURGEN FELDSCHMID: I'm wondering if I
5 could expand that out to the period prior to the drought
6 really setting in, say, stretching back to the beginning of
7 the 01/02 fiscal year; what type of operation level was the
8 Brandon coal-fired plant operating at then?
9 MR. DAVID CORMIE: We'd have to get you those
10 numbers back to 01/02, sir.

11 MR. JURGEN FELDSCHMID: If I could have that
12 as an undertaking then, please?

13 MS. PATTI RAMAGE: Could I clarify exactly
14 the undertaking, I didn't -- I wasn't writing fast enough?

15 MR. JURGEN FELDSCHMID: Well, I guess maybe
16 what we can do is, sort of, combine the whole thing. If I
17 could get some sort of a an analysis or schedule that, sort
18 of, shows the number of days operating or percentage of time
19 operating from the beginning of 01/02 through to the present
20 for the Brandon coal-fired thermal station, is, in a
21 nutshell, what I'm looking for.

22
23 --- UNDERTAKING NO. 25: To provide analysis or schedule
24 that shows the percentage of time
25 operating from the beginning of

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1 01/02 through to the present for
2 the Brandon coal-fired thermal
3 station.
4

5 THE CHAIRPERSON: Mr. Feldschmid, would it
6 serve your purposes and perhaps the purpose of the Board too,
7 if the schedule was simplified into one that simply showed
8 certain blocks of time the production as compared to the
9 potential in the period?

10 MR. JURGEN FELDSCHMID: I guess -- I suppose
11 that would also be useful. I'm not sure if it's -- doesn't
12 get to the frequency of use. I guess, I'm just concerned it
13 measures a slightly different thing.

14 Perhaps if could -- Mr. Chairman, your inquiry
15 could be incorporated into the same undertaking.

16 MR. DAVID CORMIE: We can provide the monthly
17 generation and the load factor of the station by month.

18 MR. JURGEN FELDSCHMID: That will be fine.
19

20 CONTINUED BY MR. JURGEN FELDSCHMID:

21 MR. JURGEN FELDSCHMID: If I could just turn
22 then to the issue of water management and management of the
23 water reservoirs. I'm wondering how would you characterize
24 reservoir storage say in the mid-spring or early -- actually
25 early spring, say in March of 2002.

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1 And perhaps if you could remind me again what
2 the high storage would be and -- and where it was at March
3 2002?

4 MR. DAVID CORMIE: March 2002, energy and
5 reservoir storage was, I think, about 2 million megawatt

6 hours below average.

7 And the average being 9.8 million megawatt
8 hours and in the spring of 2002 it was about 8.3 million
9 megawatt hours.

10 MR. ROBERT MAYER: Do you have that number in
11 height above sea level?

12 MR. DAVID CORMIE: That's in megawatt hours,
13 Mr. Mayer because we're measuring the contents of many
14 different reservoirs, there's no single water level that
15 we're measuring.

16 MR. ROBERT MAYER: I'm sorry, I was thinking
17 you were talking Lake Winnipeg.

18 MR. DAVID CORMIE: Lake Winnipeg is about half
19 of that, so I think in the spring of 2002, it was probably
20 around 712.2, or something like that, of feet above sea
21 level.

22

23 CONTINUED BY MR. JURGEN FELDSCHMID:

24 MR. JURGEN FELDSCHMID: Now, as I recall the
25 -- the evidence, and my own memory from having lived in

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1 Winnipeg, leading up to the period of early 2002, that was a
2 relatively high flow period, the -- the availability of rain
3 up to -- up through the spring of 2002, was -- was quite
4 good, was it not?

5

6

(BRIEF PAUSE)

7

8 MR. DAVID CORMIE: I -- I believe the spring
9 of 2002 was -- was very dry and on the 1st of June, energy
10 and reservoir storage was near the previous minimum that --
11 that had been recorded in the -- in the twenty-six (26) years
12 prior to that.

13 It was the -- and as I mentioned in my
14 testimony the other day, we went home on Friday thinking that
15 we're in drought, came back Monday morning, having had eleven
16 (11) inches of rain, and all of a sudden we were sellers
17 rather than being buyers.

18 MR. JURGEN FELDSCHMID: So there is -- by the
19 say March of 2002, we were already in some sort of a dry --
20 or a drought mode, in terms of water storage, and then that
21 was alleviated by a sudden, I guess four (4) or five (5) days
22 worth of rain, that sort of alleviated the situation, is that
23 correct?

24 MR. DAVID CORMIE: Yes, and I remember the --
25 preparing the IFF in the fall of 2002, or 2001, and then it

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1 stopped raining and my Vice-President of Finance wasn't very
2 happy with me.

3 MR. VINCE WARDEN: I'm happy now.

4 MR. JURGEN FELDSCHMID: The -- subsequent to
5 that rain, the reservoirs were again drawn down, is that
6 correct, through the balance of 2002?

7 MR. DAVID CORMIE: Yeah, what happened during
8 -- during June of 2002, we had a record amount of energy
9 going into reservoir storage, mostly on the Winnipeg River
10 reservoirs and in Lake Winnipeg.

11 In spite of that record recharge, overall
12 storage in the system did not reach average in the summer of
13 -- of 2002. We had the unusual situation of having record
14 dry conditions out in Western Canada, in Alberta and
15 Saskatchewan, and record wet conditions in Eastern Manitoba
16 and North West Ontario.

17 And the two (2) situations, in effect,
18 averaged out, and we ended up almost with average water
19 conditions early in the summer of -- of 2002, but after July,
20 we had very low rainfall, and we drew reservoirs down so that
21 we reached a new -- we reached a minimum on record for coming
22 into the spring of 2003. So, energy and storage on April the
23 1st, 2003 was just slightly more than 6 million megawatt
24 hours.

25 Approximately 2 million megawatt hours more

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1 taken out of storage than -- or 2 million megawatt hours
2 taken out of storage in that year.

3 MR. JURGEN FELDSCHMID: Now, I'm -- I'm
4 wondering why, through that period, you brought the reservoir
5 storage down to that level, where it was at, at the end of
6 2002, early 2003?

7 MR. DAVID CORMIE: What happened in -- in the
8 fall of -- in 2003, we -- we constructed a new
9 interconnection between North Dakota and Manitoba, that
10 improved our ability to import power. Brought our import
11 capability up to approximately a 1,000 megawatts.

12 And in addition to that, we now had both
13 Selkirk and Gas Combustion Turbines -- I'm sorry, we had new
14 production capability at Brandon. So, we were able to go
15 into the spring of 2003 with lower energy and reservoir
16 storage than we had previously because we had a greater
17 production capability and a greater ability to import power.

18 So, we could maintain the same level of
19 reliability of supply to Manitoba customers with less amounts
20 of energy and reservoir storage.

21 MR. JURGEN FELDSCHMID: The issue isn't only
22 reliability, there's also an issue of cost and what I'm
23 suggesting is that by drawing down the reservoirs the way
24 they were drawn down in, say, the second half of 2002 put us
25 in a position where, yes, we had the capacity, thermal gas-

1 fired capacity, and the ability to import with the new
2 interconnection that you described, but the costs for
3 accessing those replacement energy sources were -- turned out
4 to be extremely high; is that not true?

5 MR. DAVID CORMIE: In 2003 and 2004 we used
6 the gas capability very infrequently. I believe our gas
7 production was in the order of a couple hundred gigawatt
8 hours. We operated it less than 5 percent of the time
9 because we were able to purchase less expensive power in the
10 marketplace.

11 So, we didn't have to operate the gas
12 stations. We didn't make some purchases and in retrospect
13 they were quite a bit more expensive than we had valued the
14 water and reservoir storage. However, we were facing a
15 drought that has a return frequency of once every thirty (30)
16 years.

17 And when you do the averaging of 90 percent of
18 the time you're in -- you're not an importer and 10 percent
19 of the time you're an importer, the expected value of water
20 is, at the time we drew it down, the expected value of water
21 was worth taking that water out of storage to defer the
22 purchase of power in the winter of 2002/2003.

23 MR. JURGEN FELDSCHMID: During your
24 testimony, I guess it was on Wednesday the 16th, particularly
25 at page 464, line 6, thereabouts, you indicated that part of

1 the reasons that reservoir storage was continuing to be drawn
2 down through 2002 was to assist the Corporation in achieving
3 its financial targets; do you recall saying that?

4 MR. DAVID CORMIE: Yes, I did.

5 MR. JURGEN FELDSCHMID: And you had indicated
6 in your previous testimony that you or the group that you had
7 make recommendations to the executive committee at Hydro and
8 ultimately to -- I guess, to the Board in terms of how much
9 water should be used up in hydro generation from time to time
10 based on the conditions as they changed; is that correct?

11 MR. DAVID CORMIE: I have the responsibility
12 for operating the reservoirs, sir, and because of Manitoba
13 Hydro's standards of conduct, our executive does not
14 establish the -- does not give operating instructions for the
15 power system, those are under my control.

16 MR. JURGEN FELDSCHMID: There is no ability
17 for more senior management to intercede and say, well, we
18 think that you could do this or that differently in terms of
19 the amount of water that you use up over a given period?

20 MR. DAVID CORMIE: That's not how we operate,
21 sir.

22 MR. JURGEN FELDSCHMID: And, in any event,
23 nothing like that occurred in 2002 or 2003; is that correct?

24 MR. DAVID CORMIE: I was asked by my
25 executive to see whether there was -- there was an

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1 opportunity to operate the reservoirs differently without
2 putting the Manitoba load at risk.

3 We did the analysis and concluded that we
4 could take additional water out of reservoir storage and help
5 avoid some of the shortfalls that were being projected in the
6 IFF, and we did that and anyway, and we took the additional
7 water out of storage, yes.

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(BRIEF PAUSE)

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11 MR. DAVID CORMIE: At the time -- well, we
12 advised the executive, that there was a chance that we would
13 have to buy it back at a -- at a later time, at a much higher
14 price, but the probabilities were very low, and -- and there
15 was something that could be done and we operated accordingly.

16 MR. JURGEN FELDSCHMID: So I guess in the
17 sense that your first concern is actual availability of
18 power, just a pure reliability question. There aren't going
19 to be brown outs, we're not going to do anything that would
20 risk a brownout or a shortage -- an absolute shortage of
21 power, is that correct?

22

MR. DAVID CORMIE: That's correct.

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24 MR. JURGEN FELDSCHMID: Then the other aspect
25 is well what -- what are the risks in terms of increased
costs later on, if we get less rain and so forth, and your

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1 indication is that you did an analysis and provided it to
2 senior management of Hydro, an analysis of the possibility
3 that there would be higher costs down the road from having to
4 purchase import power, or perhaps have gas -- more gas fired
5 power?

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MR. DAVID CORMIE: Yes, that's correct.

7

8 MR. JURGEN FELDSCHMID: And all of this
9 analysis that you were doing, in which you were called upon
10 to provide advice on to senior Hydro management, was being
11 driven by the goal of senior Hydro management to make it more
12 likely that Hydro would meet certain financial targets in the
13 IFF, correct?

13

14 MR. DAVID CORMIE: I indicated to -- to the
15 executive at the time, that it was a -- it was a cash flow
16 problem, they -- they could take the energy out of storage
17 this year, or in a -- in a subsequent year. That our
18 analysis said that we were indifferent at that point, but
there was increased risk that when you go into the -- into

19 the spring with lower reservoir storage, that you may have to
20 pay a premium to get it back.

21 But -- but from our analysis, it didn't -- on
22 an expected value basis, there didn't seem to be a cost to
23 it, except that there was increased risk if we had extreme
24 drought conditions and -- and power and gas prices were to
25 spike.

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1 MR. JURGEN FELDSCHMID: This may be more of a
2 question for Mr. Warden.

3 The -- the -- to what -- to what extent were
4 -- first of all, would you agree with Mr. Cormie, that the
5 orientation of Hydro at that time, in terms of the water flow
6 management, was in pursuit of attaining certain financial
7 targets and goals, is that correct?

8 MR. VINCE WARDEN: Well, actually we were
9 driven more at the time, not so much by our financial
10 targets. Our financial targets are -- are more long term, we
11 were very concerned at the magnitude of the absolute loss we
12 would be incurring in the fiscal year '03/04, and we were
13 corresponding a lot with David Cormie and -- and company, as
14 to how that loss could be minimized.

15 MR. JURGEN FELDSCHMID: And it was felt by
16 Hydro management that by maintaining, I guess export supply
17 and -- and earning additional revenue, or maintaining revenue
18 on export supply through the end of say 2002, that that was a
19 good way of bolstering the -- the Corporation for the
20 possibility of a significant loss in -- in 2003, is that
21 correct?

22 MR. DAVID CORMIE: I -- I believe what
23 happened was we were avoiding purchases, we weren't
24 maintaining any exports with that. We had -- we had a
25 position that we had to cover, and we can cover that by

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1 taking water to storage, or purchasing power.

2 And it wasn't a -- we were probably right on
3 target for our export revenues, but our costs were increasing
4 through the winter as our water supply was less than
5 forecast.

6 MR. JURGEN FELDSCHMID: So you were drawing
7 out of reservoir storage, through say the second half of
8 2002, in order to avoid having to buy more imports and -- and
9 incurring costs of that?

10 MR. DAVID CORMIE: During the winter of 2002
11 and 2003, yes.

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13

(BRIEF PAUSE)

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15 MR. JURGEN FELDSCHMID: So then, Mr. Cormie,
16 you're, I guess, modifying what you were saying earlier, or
17 perhaps adding to it that it was not just an issue of -- and
18 I mean, trying to ensure that the Corporation stayed on track
19 in terms of financial targets, it was also this -- this issue
20 of trying to avoid import costs of import power, is that
21 correct?

22 MR. DAVID CORMIE: Well, I -- I think Mr.
23 Warden has -- has clarified the word financial targets. We
24 had projected a net export revenue for fiscal year '02/03,
25 and we were asked to do what we could to meet that net

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1 revenue target.

2 And through the winter of '02/03, we reviewed
3 our -- our numbers and our -- our plans for the summer of
4 '03/04, and we -- we concluded that -- that we weren't
5 putting the domestic load at risk, that we could draw
6 additional water out of reservoir storage in -- in the winter
7 of January, February and March of 2003, and we did that, in
8 order to reduce the amount of money that we were spending on
9 purchasing power.

10 MR. JURGEN FELDSCHMID: Mr. Warden, just to
11 make a sort of gross analogy, one could look at the retained
12 earnings or reserves of Manitoba Hydro as a -- as a
13 container, a vessel, a pot. And at one (1) point it had in
14 excess of a billion dollars, to cushion Hydro against various
15 contingencies, and of course subsequently because of the
16 drought and other factors, it's got X amount less, is that
17 correct?

18 MR. VINCE WARDEN: Yes.

19 MR. JURGEN FELDSCHMID: And obviously there --
20 there flows into the pot, net income, which is driven by
21 revenues minus costs. And -- and payments out of the -- the
22 Corporation as well, correct?

23 MR. VINCE WARDEN: Payments out of the
24 Corporation other than the revenues and expenses you referred
25 to?

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1 MR. JURGEN FELDSCHMID: Well, I'm thinking
2 particularly in terms of payments to the Government, whether
3 they're water rentals, or the special payment, obviously
4 that's -- that's to continue with the very simple analogy,
5 taking out of the -- the Hydro pot, and therefore making it
6 -- creating a situation where there is less in the retained
7 earnings pot than there otherwise might be, correct?

8 MR. VINCE WARDEN: Well, I think you are

9 generalizing a fair bit, but you know, the water rentals are
10 -- are a statutory requirement for Manitoba Hydro to pay, as
11 was the special payment from retained earnings, but they're
12 really quite different, but all have an impact on retained
13 earnings, that -- that part of it is correct, yes.

14 MR. JURGEN FELDSCHMID: Thank you. I'm just
15 wondering if in 2002, as you were heading into this period
16 where you began drawing down on -- on reserves, water
17 reserves, that was shortly after the Government initially
18 indicated that it would be taking a special payment, is that
19 correct?

20 MR. VINCE WARDEN: Yes, at that time though we
21 certainly did not know what was ahead in terms of the very
22 serious drought that we -- we encountered.

23 MR. JURGEN FELDSCHMID: And also at that time,
24 you weren't entirely sure as to whether that 288 million
25 total amount, might go down under any circumstances, it was

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1 only after the legislation was passed, and indicated that
2 there would be a top out at 75 percent of -- of net income,
3 that -- that you knew that if things did sort of turn badly
4 for the Corporation, that there would be a reduction down
5 from that \$288 million amount, is that correct?

6 MR. VINCE WARDEN: Well, that all occurred at
7 the same time, so we knew that the \$288 million was an upper
8 limit, and it could be less than that.

9 MR. JURGEN FELDSCHMID: Are you saying from
10 the time it was announced in the budget of 2002, you knew
11 that the two hundred and eighty-eight (288) was in fact just
12 an upper limit, and that there was a possibility that there
13 would be a -- a mechanism where it would be less if the
14 fortunes of Manitoba Hydro were not as anticipated?

15 MR. VINCE WARDEN: I believe that's true.
16 I'm not sure how much detail was in the budget itself. But
17 if it wasn't immediately apparent there it was very shortly
18 thereafter.

19 MR. JURGEN FELDSCHMID: I'm just wondering,
20 Mr. Warden, if part of the anxiousness to maintain financial
21 targets on the part of Manitoba Hydro leading, in turn, to
22 drawing down energy reserves was driven by an anticipation or
23 a concern on Manitoba Hydro management part that they would
24 have to be making this large payment to the Manitoba
25 Government in the -- in the short term.

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1 MR. VINCE WARDEN: Yeah, I can tell you the
2 two issues are totally unrelated.

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(BRIEF PAUSE)

MR. JURGEN FELDSCHMID: If I could just ask the Panel to turn up PUB Exhibit 9. Just let me know when you've got it up?

MR. DAVID CORMIE: Which document are you referring to, Mr. Feldschmid?

MR. JURGEN FELDSCHMID: It's PUB -- or Exhibit PUB-9. It's a landscape oriented document which says "Comparison payments to province" up at the top of it and it compares Manitoba Hydro, BC Hydro and Quebec Hydro, "Comparison payments to the province"?

MR. VINCE WARDEN: Yes, we have it here.

MR. JURGEN FELDSCHMID: And I'm just -- a simple question, I averaged out the percentage paid to the respective Provincial Governments by each of these three (3) utilities and including the updated number for Hydro Quebec of, I believe, 15 percent for '03.

I just want to have confirmation and if you need to get back to me as a small undertaking or something, that's fine, but the average over the '01 to '03 period for Manitoba Hydro is 18.6 percent whereas BC Hydro was 12.83

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1 percent and Quebec Hydro was 12.45 percent for the same
2 period; can you confirm that?

MR. VINCE WARDEN: We'll accept those
3 numbers, subject to check. However, I think it's not a
4 totally fair comparison because of the magnitude of the
5 special payment in '02/'03 which isn't representative of
6 normal payments that we would be making from year to year to
7 the Province.

MR. JURGEN FELDSCHMID: Thank you for that
8 clarification. Those are all my questions, Mr. Chair. Thank
9 you.

THE CHAIRPERSON: Thank you, Mr. Feldschmid.
10 At this time then, we'll move on to Mr. Williams and
11 CAC/MSOS. Mr. Williams...?

MR. BYRON WILLIAMS: Thank you, Mr. Chairman.
12 Just -- I've retained my junior, Mr. Osler to assist me in
13 distributing a -- a Book of References, as well as Mr. Singh.
14 So, if we'll just give a few minutes for these to be handed
15 out to the Hydro Panel and to the Board and Board advisors.

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(BRIEF PAUSE)

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MR. BYRON WILLIAMS: And -- and I believe Mr.
20 Cormie may want to compliment me on the -- the colour
21 coordination between the back cover and my tie which has been

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1 very tact -- actively chosen.

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(BRIEF PAUSE)

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MR. BYRON WILLIAMS: I do wish to thank Mr. Singh, as well as Mr. Osler for their kind assistance and Mr. Osler's cheque is in the mail.

7
8
9 The -- be -- before starting I did want to on behalf of myself and my advisor and well as my clients, thank Mr. Peters and his assistant -- or advisors because I think it's made our task smaller which hopefully will be -- make this process more efficient, so we want to do that.

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CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

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MR. BYRON WILLIAMS: And just by way of context and to the Hydro Panel, in general, I wonder if you could turn to Tab 21 of the Book of References, titled CAC-MSOS Reference Material O&A.

And I'd -- probably to you, Mr. Warden, and I understand that we're going to be dealing with bill impacts at later date, but just for the purposes of context, I wonder if you can confirm for me that this Interrogatory was asking basically -- assuming an implementation date of August 1, 2004, for the proposed 2004/'05 rate increase, Hydro was

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1 asked to recalculate the monthly bill impacts for '04/'05 using rates that will be actually used to bill customers.

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And Mr. Warden, I wonder if you can confirm for me that for residential customer averaging seven hundred and fifty (750) kilowatt hours per -- per month, the increase would be 4.63 percent. Would that be right?

MR. VINCE WARDEN: Yes, that's what's indicated here. I agree.

MR. BYRON WILLIAMS: And for those using averaging a thousand (1,000) kilowatt hours per month, the percent change will be 5.17. While for those using two thousand (2,000) kilowatt hours per month, the percent change will be 6.11 percent. Is that right?

MR. VINCE WARDEN: Over that shortened period of time, yes, that's correct.

MR. BYRON WILLIAMS: And that's for residential customers?

MR. VINCE WARDEN: Yes.

MR. BYRON WILLIAMS: And so I -- I take it that you'd agree with me that while there will be a range in terms of the percentage bill impact for residential customers, there will be a number of residential customers who will be experiencing rate impacts, assuming this application is approved, in excess of 5 percent, effective August 1st? Is that right, Sir?

1 MR. VINCE WARDEN: Yes.

2 MR. BYRON WILLIAMS: And that number would be
3 a significant number of consumers as well -- residential
4 consumers. Correct?

5 MR. VINCE WARDEN: We don't have the absolute
6 numbers here, but -- but yes, it would be a significant
7 number, I agree.

8 MR. ROBERT MAYER: Sorry, I missed that. Was
9 that a significant number of customers using two thousand
10 (2,000) kilowatt hours?

11 MR. VINCE WARDEN: The two thousand (2,000)
12 kilowatt hours would apply to those customers that have
13 electric heat. So, there would be a relatively large number
14 of those customers throughout the Province of Manitoba, yes.

15 MR. ROBERT MAYER: I, for one, recognize the
16 importance of that particular group.

17 MR. VINCE WARDEN: We always do.

18 MR. BYRON WILLIAMS: And just with regard to
19 those using electric heats, those would primarily be in rural
20 Manitoba. Would that be fair, Sir?

21 MR. VINCE WARDEN: Yes, that's right.

22 MR. BYRON WILLIAMS: Thank you. We can -- we
23 can leave that page. And I wonder, Mr. Warden, I'm a -- for
24 another -- just again, on the -- for the purposes of context,
25 perhaps you'll permit me to start off with an anecdote that

1 I'm not tendering for its truth.

2 But I remember in conversation over a couple
3 of pops with my friend and predecessor, Mr. Phelps, one (1)
4 day. And he was telling me about this golden moment of
5 cross-examination he had with the Chief Executive Officer of
6 your Corporation, Mr. Brennan.

7 And where Mr. Brennan candidly admitted to him
8 that when Mr. Brennan went into to the -- speak with the bond
9 rating agencies, he went in with a jovial smile and a -- a
10 joyful expression for the purposes of -- of securing a
11 favourable bond rating report. And when he went to the
12 Public Utilities Board, he went with a doleful expression and
13 a sense of melancholy for the purposes of securing a -- a
14 rate increase.

15 And Mr. -- Mr. Warden, I just -- that came to
16 me as I listened to you speak about how you're pleased with
17 Mr. Cormie now. And I wonder if you'd agree with me that the
18 degree to which Hydro smiles upon, or frowns upon, a
19 particular piece of information depends, at least to a
20 certain degree, about the degree to which that information

21 assists or hurts a case -- its case. Would you agree with
22 that?
23 MR. VINCE WARDEN: Well, everything's
24 relative, I think. Well, I'll leave it at that.
25 MR. BYRON WILLIAMS: I was hoping for one of

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1 those golden moments as well but I do appreciate your --
2 MR. VINCE WARDEN: You need Mr. Brennan for
3 that.
4 MR. BYRON WILLIAMS: You have to be President
5 to get away with saying that; right? I wonder if you could
6 turn back one tab to Tab 20 from the transcript and we'll
7 stay on this theme. And, Mr. Warden, I'm not -- I'm just, to
8 start with, I'll give you a chance to comment in a couple of
9 minutes, but I just want to confirm your statement to start
10 with.
11 On Tab 20, and I'm referring to page 88 of day
12 one of the -- of the transcript and specifically starting at
13 line 10; do you have that, sir?
14 MR. VINCE WARDEN: I do.
15 MR. BYRON WILLIAMS: Okay. And you see that
16 Ms. Ramage is asking you to comment on the increases to
17 Hydro's operating and administrative expenses and the
18 measures which have been used to control operating costs.
19 And to paraphrase your response, just the
20 first two (2) paragraphs of your response, you indicated
21 that, first, you'd like to comment briefly on the emphasis
22 which Intervenors appear to be putting on the operating cost
23 per customer and then you go on to say that operating cost
24 per customer is one high level indicator missing then of
25 performance. It is not relied upon extensively as a short

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1 term measure across the business units of Manitoba Hydro.
2 And without asking you to elaborate at this
3 point in time, I wonder if you can confirm that I've
4 paraphrased you accurately, sir?
5 MR. VINCE WARDEN: Yes, that's what I said.
6 MR. BYRON WILLIAMS: And I want to turn to
7 the subject of how much emphasis we should place on these
8 indicators and I wonder if you would agree with me that if we
9 turn back to - and these appear at Tab 18 and 19 of the
10 transcript - if we turn back to references from the status
11 update and your evidence to both Mr. Peters at page 365 and
12 then -- and that -- we'll see -- we'll see that, and I'm
13 specifically referring to line 10 to 18 and specifically line
14 13, you indicate that we are tracking the O&A costs per
15 customer.

16 We think it's a pretty good measure and we're
17 comparing ourselves historically and going forward. And Mr.
18 Peters, starting at line 19 goes on to ask whether you
19 consider it a valid measure and you go, "Yes, you do".

20 And I wonder if you would agree with me, Mr.
21 Warden, that one reason we might place some emphasis upon
22 this measure is because you seem to place some emphasis upon
23 it in the course of the status update hearing; would that be
24 fair?

25 MR. VINCE WARDEN: Yes. And you'll recall I

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1 also had a discussion with Mr. Peters about the revenue per
2 employee and we -- we concluded that isn't a good measure.
3 So, comparing the O&A per customer is certainly a much better
4 measure than others.

5 So measures are -- are good. We have to have
6 them but they have to be looked at in -- in their totality
7 and we shouldn't put -- and that was my concern that I was
8 trying to express in my direct is there seemed to be a lot of
9 emphasis being placed on that one measure in the absence of
10 others.

11 And I thought there was just -- it was
12 overweighted in that particular measure. So, that's the
13 point I was trying to get across. Not to say that OM&A per
14 customer isn't a good measure. It's good but it has to be
15 viewed in context with other measures at the same time.

16 MR. ROBERT MAYER: As you said at the end of
17 that same sentence, "we do it, but with some caution".

18 MR. VINCE WARDEN: Yes. Thank you very much,
19 Mr. Mayer.

20 MR. BYRON WILLIAMS: And we'll certainly
21 allow for an elaboration on that subject, both in our
22 discussion -- my discussion with you and as well as with
23 certainly Hydro will be invited to undertake the same
24 discussion with Mr. Harper.

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1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: But I want to pursue
3 this just a little farther, Mr. Warden, because wasn't your
4 advise to the Board, and this is appearing at Tab 19 of the
5 Book of References, referring to page 1960 of the status
6 update transcript, and line 17 in particular, you indicated
7 that you recognize that this is a valuable target; is that
8 not right? Do you see that, Mr. Warden?

9 MR. VINCE WARDEN: Yes. And as a matter of
10 fact, that's one of the things I think I was trying to say at

11 that hearing is that it had been used for a number of years
12 at Centra Gas and we had just adopted it at Manitoba Hydro,
13 recognizing that it had value there.

14 MR. BYRON WILLIAMS: And just again, given
15 your suggestion that perhaps we were over emphasizing or that
16 Mr. Harper was over emphasizing this target, I wonder if you
17 could turn back to Tab 17 of the transcript, which is an
18 excerpt from Board Order 7/03, specifically page 92.

19 And I direct your attention, Mr. Warden, to
20 the last paragraph there, and the second line, or the second
21 sentence, starting on the third line. And you can see there,
22 can you not, Mr. Warden, that:

23 "The Board recommends Hydro aggressively
24 pursue meeting its operating and
25 administrative costs for customer target,

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1 while finding ways to increase
2 productivity."

3 So you'd agree with me that another reason why
4 we may wish to place a great deal of emphasis upon this
5 target is because the Public Utilities Board has said to
6 Manitoba Hydro, you should be aggressively pursuing this
7 target, would you agree with me, sir.

8 MR. VINCE WARDEN: Yes, I think elsewhere
9 though, the Board has encouraged us to -- to pursue other
10 targets as -- as well, so -- but don't get me wrong, I'm not
11 downplaying that target as being valid, it certainly is.
12 Everything in context though.

13 MR. BYRON WILLIAMS: I -- I do want to explore
14 that context a bit further, moving back to Tab 20 of the Book
15 of References.

16 And again, this is referring to page 89 of the
17 transcript, and starting at line 5, and I'll read this in
18 directly, through to line 12, because it seems to me that
19 once again, Mr. Warden, you're downplaying the value of this
20 target.

21 And you indicate, starting at line 5 that:
22 "Nevertheless, at Executive Committee, we
23 do review operating costs for customers,
24 along with other measures on a monthly
25 basis, and if there are major deviations

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1 from the overall Corporate target, we
2 investigate the reasons as to why this has
3 occurred. But the real control over
4 operating and administrative expenses,
5 takes place through the budgeting process,

6 and the very stringent controls we have
7 over budgets."
8 Now, did I read that correctly, Mr. Warden?
9 MR. VINCE WARDEN: Yes, I thought you read it
10 perfectly, thank you.
11 MR. BYRON WILLIAMS: I'm getting better,
12 that's much better than my paraphrase of a couple minutes
13 before.
14 And I want to focus on the first part of the
15 sentence, starting at line 10, because you indicate that the
16 real control over operating and administrative expenses takes
17 place through the budgeting process.
18 And if I recall -- you're going back to Tab 19
19 again. If I am to recall your testimony from the status
20 update hearing, and specifically the last page of that
21 reference, starting at page 1962, Mr. McNicoll is asking you
22 to talk about trying to meet the OM&A target, and you
23 indicate:
24 "We have a budget review process that we're
25 in the midst of right now."

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1 And I won't read that whole paragraph, so
2 we'll be scrutinize -- I'm starting at line 10 now though:
3 "So we'll be scrutinizing those budgets and
4 comparing them on an overall basis to cost
5 to customer. To make sure that we get down
6 to that level on the budget side. And then
7 it will be a matter of meeting those
8 budgets on the actual cost side."
9 So, I wonder if you could confirm, Mr. Warden,
10 that your evidence in the status update hearing was that
11 these targets per customer, were an integral part of the
12 budgeting process, and in fact were used to scrutinize the
13 divisional budgets that were put before you?
14 MR. VINCE WARDEN: Well, yes, they certainly
15 are, we look at the operating -- or the -- yes, the operating
16 and administrative costs per customer at the same time as
17 we're -- we're setting budgets.
18 They -- I think reading this paragraph as you
19 just pointed out at -- at Tab 19 would lead one to believe
20 that the cost per customer drives budgets, and I can tell you
21 that isn't really the case. I'm not exactly sure. I guess
22 I'd have to read this in more detail, the transcripts in more
23 detail, to see exactly the context under -- under which I
24 said that.
25 But I can tell you in fact that we -- we

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1 prepare our budgets, we look at what operating costs per
2 customer falls out of that, but rarely do we cycle back and
3 say, well, we'll have to revise our budgets again, because
4 the operating cost per customer is -- is too high. It's
5 within a range, there are programs that come up within the
6 budgeting cycle that could temporarily cause that cost per
7 customer to -- to increase.

8 So, I think I -- I indicated in my direct that
9 we look at cost per customer over a longer period of time,
10 and certainly take into account, looked at on a monthly
11 basis, any deviations from that, we investigate.

12 But that in itself, does not drive budgets.

13 MR. BYRON WILLIAMS: So when you indicated to
14 the Board, in -- at page 1962 of the Status Update
15 Transcript, that you were scrutinizing those budgets and
16 comparing them on an overall basis to the cost per customer,
17 to make sure we get down to that level on the budget side.
18 Was that an -- an overstatement, Mr. Warden, or is -- am I
19 taking you out of context? Or -- it -- scrutinized sounds
20 like a very aggressive word.

21 MR. VINCE WARDEN: Yes, and, you know, I
22 think I'd have to probably read that whole transcript to --
23 to see the context under which I made that statement.

24 In isolation it looks like its driving the
25 budgets. I think I've already said that, but that isn't

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1 precisely the case.

2 MR. BYRON WILLIAMS: And I'd certainly invite
3 you to do that, Mr. Warden. And -- and reserving the right
4 to -- to re-enter this discussion at a later date.

5 I wonder if we can turn now to -- we're going
6 to go away from that level and I'm going to ask you, the
7 Panel, to assist me just in some questions of clarification
8 to assist My Friend and Witness, Mr. Harper. So I'm going to
9 ask you to turn to Tab 1 of the -- of the Book of References.

10

11 (BRIEF PAUSE)

12

13 MR. BYRON WILLIAMS: And just to give the
14 Hydro Panel some insight into where my next few minutes. I
15 am going to give a firm estimate of this, my next ten (10) to
16 twelve (12) minutes of cross-examination are going to be --
17 this is just to assist me and -- and assist Mr. Harper in
18 understanding how the planned overtime in concepts like
19 annualized EFT's fit within the -- within the Hydro
20 materials.

21 And, Tab 1, as you can see -- and I'll ask
22 Hydro to confirm that. Hydro was asked to provide a -- a
23 schedule showing EFT employees by business unit from 1973 to
24 2003.

25

 And in the response to start with -- we'll get

1 to the numbers in a second, but could you confirm that Hydro,
 2 in its response, indicated that fiscal years through 2001
 3 through 2003 reflect the integration of all former Centra Gas
 4 employees effective January 1, 2001. And that the EFT data
 5 reported excludes overtime? Can I confirm -- can you confirm
 6 that?

7 MR. WILLIE DERKSEN: Yes, sir, that's
 8 correct.

9 MR. BYRON WILLIAMS: I see we haven't fixed
 10 that mike from this morning. I'll lay that on the shoulders
 11 of My Friend Mr. Peters, who I thought had an undertaking to
 12 do so.

13 And Mr. Derksen, if I could --

14 MR. ROBERT MAYER: Qualified electrician that
 15 he is.

16 MR. BYRON WILLIAMS: Mr. Mayer, we learned
 17 that he comes from a -- a small town in rural Saskatchewan so
 18 I'm sure that he's a jack of all trades. Anyways, I digress.
 19

20 CONTINUED BY MR. BYRON WILLIAMS:

21 MR. BYRON WILLIAMS: If we could just, Mr.
 22 Derksen, turn to the third page of this response and I'll --
 23 I'll draw your attention to the years ended March -- March of
 24 2002, 2003 and the -- this response indicated that the total
 25 EFT's forecast for the 2001/2002 fiscal year were four

1 thousand nine hundred and forty -- forty-one (2941), is that
 2 right, sir?

3 MR. WILLIE DERKSEN: Yes, that's correct.

4 MR. BYRON WILLIAMS: And moving along one (1)
 5 column to the right, the total EFT's forecast for 2002/2003
 6 were four thousand nine hundred and seventeen (4,917).
 7 Correct?

8 MR. WILLIE DERKSEN: Yes, that's what it
 9 says.

10 MR. BYRON WILLIAMS: And, again, I'm just
 11 going to ask Hydro to assist me in reconciling the
 12 differences between the next applications, or the current
 13 applications.

14 So I'd ask you to turn to Tab 2 of the Book of
 15 References, which is the Schedule 2.31 from the Hydro
 16 Application, Volume 1.

17 And I wonder if you could confirm, Mr.
 18 Derksen, that rather than the forecast figure four thousand
 19 nine hundred and forty-one (4,941), the actual results from
 20 -- as set out Schedule 2.31 were five thousand one hundred
 21 and seventy-two (5,172), is that right?

22 MR. WILLIE DERKSEN: Yes, but I -- and I
 23 believe this is where you're going to the actual number does

24 include overtime in this case.

25 MR. BYRON WILLIAMS: Yes, and we'll get to

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1 that in just a second, if you'll -- I'll certainly give you a
2 chance to -- to clarify that and assist my Witness as well.

3 And if we look at the total EFT's as portrayed
4 in Schedule 2.31, we see that the actuals for the 2002/2003
5 fiscal year are five thousand five hundred and fifty-three
6 (5,553) as opposed to the forecast of -- set -- set out in
7 the status update of four thousand nine hundred and seventeen
8 (4,917). Is that correct?

9 MR. WILLIE DERKSEN: Yes, sir, that's
10 correct.

11 MR. BYRON WILLIAMS: And here's -- here's your
12 big chance at glory, sir.

13 If we turn to Tab 3 of the book of references,
14 you'll see we have Hydro's response to CAC/MSOS-II-11, which
15 asks you to reconcile these two (2) figures presented in
16 Volume I, Schedule 2.31, and the status update, PUB-145. And
17 my understanding in terms of your response, is that the
18 forecast for 2002 and 2003 did not include overtime, is that
19 right, Mr. Derksen?

20 MR. WILLIE DERKSEN: The forecast in the
21 status update did not include overtime, that's correct.

22 MR. BYRON WILLIAMS: And so what this
23 Interrogatory Response is trying to do, and I could probably
24 direct your attention to the third page of it, Mr. Derksen,
25 is what it's trying to do is to reconcile what the status

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1 update forecast would have looked like, if it would have
2 taken into account factors such as overtime and annualized
3 EFTs, is that correct?

4 MR. WILLIE DERKSEN: Yes, that's what this
5 response provides.

6 MR. BYRON WILLIAMS: And let's turn to the
7 bottom line of that -- of that response. The total line.
8 And we see that it appears that -- that there was a total of
9 two hundred (200) -- for the fiscal year 2001/02, there was a
10 total of two hundred and ninety (290) planned overtime EFTs
11 for that year, would that be correct, sir?

12 MR. WILLIE DERKSEN: Yes.

13 MR. BYRON WILLIAMS: And there was also fifty
14 (50) annualized EFTs, would that be right?

15 MR. WILLIE DERKSEN: That's correct.

16 MR. BYRON WILLIAMS: Now presumably when we
17 forecast OM&A costs, we have to know not only the number of
18 EFTs, we also need to know how much we're paying them. And I

19 wonder -- and I'm assuming that Hydro has some sort of
20 general rule of thumb, as to the relative costs of an EFT of
21 overtime, relative to an EFT of regular time, would that be
22 correct?

23 MR. WILLIE DERKSEN: Well, a general rule of
24 thumb is not used, because overtime is forecasted at the
25 departmental level, based upon their own employees and the

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1 expected workload from that department.

2 MR. BYRON WILLIAMS: So, is there -- can you
3 give me a range that we might -- might expect, Mr. Derksen,
4 in terms of how much more EFT of overtime costs, versus an
5 EFT of non-overtime?

6 MR. WILLIE DERKSEN: Well, on an hourly basis
7 overtime is generally at double the regular time rate, but
8 that may not translate into reality, if you went on an annual
9 basis. And what I mean by that is if you added an
10 incremental employee and paid them for the full year, whereas
11 you really only needed let's say six hundred (600) hours of
12 that person, you might be better off to use overtime, than to
13 employ somebody permanently full time.

14 MR. BYRON WILLIAMS: And I'll get to the
15 explanation of why you use overtime, but would it be right
16 that most -- most of these areas would be covered by
17 collective agreements, and they provide for overtime to be at
18 double the rate, is that correct, sir?

19 MR. WILLIE DERKSEN: Yes, that's correct.

20 MR. BYRON WILLIAMS: And the reason that Hydro
21 might choose to plan for overtime, might be in certain areas
22 where it's -- you've determined that the workload is
23 cyclical, so it's cheaper to pay overtime, than to have staff
24 around all year, is -- and hopefully I'm restating what you
25 said just a couple of seconds ago?

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1 MR. WILLIE DERKSEN: Yes, that would be one
2 (1) of the reasons.

3 MR. BYRON WILLIAMS: And what would be other
4 reasons that you would have planned overtime within your
5 budgets?

6 MR. WILLIE DERKSEN: Well, another reason is
7 that frequently there are unforecasted events such as storms,
8 that will require overtime in order to get the work
9 accomplished. And so we don't plan for those storms to
10 happen, but what we do plan is that there's a likelihood that
11 there will be some overtime required as a result of those
12 events.

13 MR. BYRON WILLIAMS: I wonder if you can just

14 turn back to page 2 of 3, of this Response, CAC/MSOS-MH-II-2-
15 11. And just turn to the column, Generation North. Do you
16 have that, Mr. Derksen? Or not -- not to the column, but to
17 the line generation mark under power supply?

18 MR. WILLIE DERKSEN: Yes, I have that.

19 MR. BYRON WILLIAMS: One (1) of your witnesses
20 always had to correct me on the difference between a line and
21 a column, but I am slowly catching on.

22 If I look at Generation North, Mr. Derksen,
23 you can confirm for me that the non overtime EFTs were one,
24 eighty-two (182) and the planned overtime EFTs were fifty-one
25 (51); is that correct, sir?

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1 MR. WILLIE DERKSEN: That's what this shows.

2 MR. BYRON WILLIAMS: And if I did the math of
3 fifty-one (51) over one hundred and eighty-two (182) that
4 would give me probably about 28 percent in terms of the
5 workload composition being planned overtime?

6 MR. WILLIE DERKSEN: I'll take your numbers,
7 yeah.

8 MR. BYRON WILLIAMS: You'll take my numbers,
9 subject to check. I did check them but -- can you provide
10 me, with regard to that specific line item, an explanation of
11 why those numbers are so high?

12 MR. WILLIE DERKSEN: In the North there are
13 some very different rules that apply in terms of having
14 people working there and I don't know that I can elaborate on
15 it. All I can -- it's, I think to summarize it, what we --
16 we -- in order to attract the skilled workers there we need
17 to -- we generally provide a fair amount of overtime as
18 standard practice.

19 MR. ROBERT MAYER: Isn't this got something
20 to do with the fact that in places like Kelsey and Laurie
21 (phonetic) River you actually fly people in. You fly them in
22 for maybe ten (10) days and then fly them out for a week?

23 MR. WILLIE DERKSEN: Yes, that's the type of
24 practice I'm referring to.

25

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1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: So just so I'm clear,
3 Mr. Derksen, is that a exercise in terms of recruiting
4 skilled workers to this area or is it more the cost driven --
5 or is it Hydro's conclusion that it's cheaper in these areas?

6 MR. VINCE WARDEN: Well, I think it's both.
7 It's certainly cheaper in terms of the housing we have to
8 provide up North. If we had -- if we just staffed at a

9 straight eight (8) hours per day, first of all, we would have
10 trouble attracting people at those rates of pay and we would
11 have to have more infrastructure to provide for the greater
12 numbers of people.

13 MR. BYRON WILLIAMS: Okay. Thank you and Mr.
14 Harper as well, thank you for that. I wonder, and I think
15 you confirmed this in your discussion with Mr. Peters, I
16 understand that you calculate EFT's by hours worked total
17 across the Corporation divided by the standard number of
18 hours worked per employee; would that be correct -- hours
19 worked in a year, I guess?

20 MR. WILLIE DERKSEN: Yes, that's correct.

21 MR. VINCE WARDEN: Really though it depends
22 on what period we're talking about. If we're looking at the
23 number of EFT's we have in a particular month, we would look
24 at the total number of hours worked in that month and divide
25 by -- by those hours to come up with a monthly EFT.

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1 The nineteen hundred and sixteen (1,916) hours
2 that we gave is the annualized number.

3 MR. BYRON WILLIAMS: Perhaps you can explain
4 to me just where the -- going back to the third page of this
5 Interrogatory Response, what is an annualized EFT with -- as
6 set out on the bottom line or the total being the fifty (50)?

7 MR. WILLIE DERKSEN: Yes, in the status
8 update the numbers were based upon, I believe, the March
9 month, the number of EFT's that were employed at that time;
10 that wouldn't include those people that are working
11 seasonally and it wouldn't have an appropriate representation
12 of those that are added and subtracted throughout the year.

13 This annualization bring all of those -- the
14 hours that those people work for the full year into
15 consideration.

16 MR. BYRON WILLIAMS: If I looked at the
17 numbers for the -- the current forecast, I guess which would
18 be back -- well, would they -- would they have an annualized
19 component as well, Mr. Derksen?

20 MR. WILLIE DERKSEN: Yes, they would.

21 MR. BYRON WILLIAMS: And for the -- the
22 2004/2005 year can you indicate to me how many EFT's are
23 planned overtime there would be as well as for the 2005/2006?
24 I don't require that right now. I can get it by way of
25 undertaking as well.

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1 MR. WILLIE DERKSEN: Okay, we can provide
2 that, yes.
3

4 --- UNDERTAKING NO. 26: To indicate how many EFT's are
5 planned overtime for the
6 2004/2005 year as well as
7 2005/2006.
8

9 CONTINUED BY MR. BYRON WILLIAMS:

10 MR. BYRON WILLIAMS: I believe I was right on
11 in terms of my time estimate for that calculation. I said
12 twelve (12) minutes. Well, I was very close. I just wanted
13 to -- I want to contrast my performance to Mr. Peters. So as
14 long as I'm not -- as long as I'm not double, I'm feeling
15 fine.

16 And, again, Mr. Derksen, this may be to you.
17 I'm going to be turning my attention now to the -- the
18 developments in terms of EFTs, between the '01/02 year
19 actuals and the '04/05 forecast.

20 So, I'd ask you just to -- to moving along, in
21 numerical order in the Book of References, keep your finger
22 on Interrogatory -- or number -- Tab 5, which is PU -- the
23 Response to PUB-MH-I-6, as well as just bear in mind that I
24 will be flipping back and forth to the next Response, which
25 is PUB-MH-II-53.

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1 And perhaps before -- do you have those, Mr.
2 Derksen?

3 MR. WILLIE DERKSEN: Yes, I do.

4 MR. BYRON WILLIAMS: And perhaps before going
5 into the Responses, you could assist myself and the Panel in
6 understanding what -- what each of these Interrogatories was
7 seeking to adduce, and I'll -- I'll try and help you along.

8 But as I understand the Response to PUB-MH-I-
9 6, and we could turn perhaps to page 2 of 2 of that Response.
10 It provides an explanation for the five (5) Hydro business
11 units, of the increases in EFTs of eight hundred and twenty-
12 four (824), between the '01/02 actual and the '04/05
13 forecast, for factors such as the acquisition of Winnipeg
14 Hydro and others, would that be fair, sir?

15 MR. WILLIE DERKSEN: Yes, I'd agree with that.

16 MR. BYRON WILLIAMS: And if -- again, just so
17 that we know what we're dealing with in terms of the
18 Responses, if we turn to Tab 6, we see that the Response to
19 PUB-MH-II-53, provides -- it doesn't deal with EFTs per se,
20 it provides explanations for variances of more than 10
21 percent in OM&A costs, between -- in a number of situations,
22 including the '01/02 and '02/03 actuals, as well as some of
23 the forecast years.

24 And it looks at these issues in a variety of
25 ways, including by business unit and cost element, would that

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1 be fair?

2 MR. WILLIE DERKSEN: Yes, I'd agree with that.

3 MR. BYRON WILLIAMS: So, it deals -- this
4 second one (1) deals more with cost increases than EFTs, but
5 as we go through it, perhaps you'll agree that some of the
6 explanations relate to the hiring or the -- or transfers of
7 employees.

8 And you know, I'll put that as an introductory
9 remark.

10 Mr. Derksen, just as a general discussion,
11 turning back to I guess PUB-MH-I-6, and I want to just start
12 at a high level, before we go into the actual results, but
13 when we're looking at staff changes, whether reductions or
14 increases, at a high level, reductions may be due to the fact
15 that we simply don't need as many staff, so that the total
16 number of staff are reduced. That could be one (1) reason
17 why we're reducing staff, correct?

18 MR. WILLIE DERKSEN: Yeah, that could be one
19 (1) reason. I think normally when you see reductions in
20 here, they're likely due to transfers of responsibilities and
21 appropriate related transfers of staff.

22 MR. BYRON WILLIAMS: And -- and we'll get that
23 -- get to that in just a second, Mr. Derksen, thanks for
24 anticipating my question.

25 So, I guess you're telling me that there's not

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1 a lot of staff reductions in the -- in the sense that there's
2 been a lot of terminations from the organization?

3 MR. WILLIE DERKSEN: I'd agree with that.

4 MR. BYRON WILLIAMS: And so when we're looking
5 at changes, within -- within the business units, or line
6 items within business units, you've indicated that some may
7 be due -- reductions or increases may be due to -- to
8 transfers, when it's decided that a specific unit may be
9 better suited to -- to host those staff, than another one
10 (1), is that correct?

11 MR. WILLIE DERKSEN: Yes, I'd agree with that.

12 MR. BYRON WILLIAMS: And when we're dealing
13 with increases, another reason for increases, apart from
14 transfers, may be that we're simply hiring more staff, would
15 that be fair?

16 MR. WILLIE DERKSEN: Well I think simply
17 hiring more staff is a simplification of the reasons. There
18 would definitely be reasons why we would hire those staff.

19 MR. BYRON WILLIAMS: I'm a lawyer, I'm kind of
20 simplistic, sir.

21 Mr. Derksen, just -- Mr. Peters did touch on a
22 couple of these subjects during his cross, and so to the
23 Panel we won't be duplicating Mr. Peters' efforts, but we
24 will be exploring some of these lines, from a bit of a
25 different angle.

1 And just in terms of Tab 5, under the heading
2 of, President and CEO, and specifically, Mr. Derksen, I'd
3 like to direct your attention to the second line, General
4 Counsel and Corporate Secretary.

5 You'll agree with me that for that -- that
6 figure, the '01/'02 actuals were twenty (20) and we've seen
7 reflected in the forecast 2004/'05 changes in terms of an
8 increase of six (6) -- six (6) EFTs. Is that correct?

9 MR. WILLIE DERKSEN: Yes, that's what it
10 shows.

11 MR. BYRON WILLIAMS: And if I do the math.
12 Six (6) divided by twenty (20), you'll accept, subject to
13 check, that, that's a 30 percent increase in full-time E --
14 EFT's?

15 MR. WILLIE DERKSEN: Yes, I agree with that.

16 MR. BYRON WILLIAMS: Now, when we turn to the
17 -- we don't need to for this one (1), Mr. Derksen, but if we
18 turn to PUB 2-53, we -- we couldn't find an explanation for
19 those EFT's for this specific line item.

20 So I wonder if you could give me at a high
21 level what -- what this involved and how many were transfers
22 and how many were new positions?

23 MR. ROBERT MAYER: Be careful what you do to
24 the law department here, Mr. Williams.

25 MR. WILLIE DERKSEN: I -- I don't have the

1 specific details.

2 Yes, our counsel has reminded me that there
3 were three (3) lawyers away on maternity leave in '01/'02.
4 Now, those -- that work still had to get done and in the
5 second response that you referred to, it only explained
6 instances where the variances were greater than 10 percent.
7 So that type of work was being done by outside people at that
8 point.

9 MR. BYRON WILLIAMS: So were these positions,
10 three (3) of them you're saying, are returns from maternity
11 leave. Were the other ones transfers? Or were they new
12 positions? Or are you aware, Sir?

13 And, you know, I'll ask these questions and if
14 it's of assistance when they're -- when you're not -- when
15 the materials not immediately at hand, I certainly would
16 invite you to make a note and get back to me at a later date.

17 MR. ROBERT MAYER: Is Mr. Bedford in here
18 somewhere?

19 MS. PATTI RAMAGE: No, Mr. Bedford was a
20 replacement.

21 MR. WILLIE DERKSEN: I was just looking. We
22 had a response that talked about the new positions that were
23 created. I'm -- if you can just give me a minute, I'll see
24 if I can refer to that.
25

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1 (BRIEF PAUSE)
2
3 MR. WILLIE DERKSEN: For that particular area
4 there were three (3) new positions then, and two (2) of them
5 were additional lawyers and one (1) was a security person.
6 MR. BYRON WILLIAMS: Moving to -- down a
7 line, two (2) lines, to aboriginal relations. You'll confirm
8 for me that the actuals for 2001/02 were twenty-eight (28)
9 and the forecast pauses -- or increases out to 2004/05, is
10 twenty-one (21). Is that correct, sir?
11 MR. WILLIE DERKSEN: Yes. Yes, that's
12 correct.
13 MR. BYRON WILLIAMS: And if I did the math
14 for that, I would come up with a 75 percent increase in this
15 particular area by dividing twenty-one (21) by twenty-eight
16 (28). Is that correct, sir?
17 MR. WILLIE DERKSEN: That math would give you
18 the increase, right.
19 MR. BYRON WILLIAMS: Now, I understand and --
20 and this set out. You probably don't need to -- to turn
21 there, but in number fifty-three (53), page -- or the
22 response to PUB 2-53, page 4, in terms of that some of these
23 positions were due to staff transfers.
24 And I wonder if you can indicate to me, how
25 many of these twenty-one (21) increase positions were staff

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1 transfers, Mr. Derksen?
2 MR. WILLIE DERKSEN: No, sir, I don't have
3 the details in front of me for that.
4 MR. BYRON WILLIAMS: Well, I wonder if you
5 would undertake to indicate how many were staff transfers and
6 also provide an explanation for the balance of the increase;
7 could you do that, sir?
8 MR. WILLIE DERKSEN: Yes, sir. I can.
9 MR. BYRON WILLIAMS: And my understanding,
10 you could probably confirm that apart from transfers some of
11 these were due to increased positions in terms of community
12 relations and policy development initiatives; is that
13 correct?
14 MR. WILLIE DERKSEN: Yes. There was some
15 funding provided to increase that area.

16 MR. BYRON WILLIAMS: And perhaps in so
17 providing this response you could indicate how many of the
18 new positions were in community relations and how many were
19 in policy development as well, thank you. Could you do that,
20 sir? Sorry.
21 MR. WILLIE DERKSEN: Yes, sir.
22 MR. BYRON WILLIAMS: Moving down --
23 MS. PATTI RAMAGE: Mr. Williams, I'm just
24 going to make sure I've got how much of the increase is due
25 to staff transfers and how many of the new positions are due

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1 to --
2 MR. BYRON WILLIAMS: Community relations and
3 policy development.
4 MS. PATTI RAMAGE: Thank you.
5 THE CHAIRPERSON: Mr. Derksen and Ms. Ramage,
6 since you're doing that work related to Mr. Williams'
7 request, at the same time, could you indicate whether or not
8 these personnel are capitalized as part of the development
9 work?
10 MR. WILLIE DERKSEN: I think we can provide
11 you an indication of what proportion of them are capitalized;
12 yes.
13
14 --- UNDERTAKING NO. 27: To provide an indication of what
15 proportion of them are capitalized.
16
17 CONTINUED BY MR. BYRON WILLIAMS:
18 MR. BYRON WILLIAMS: Mr. Derksen, I see
19 you're just moving some papers, you're still paying rapt
20 attention to me, sir?
21 MR. WILLIE DERKSEN: I am.
22 MR. BYRON WILLIAMS: You may be the only
23 person on this subject but we have to do it. Under Finance
24 and Administration and specifically Information Technology
25 Services, it appears that there are, in terms of changes,

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1 there are nineteen (19) additional EFT's from Winnipeg Hydro
2 and Manitoba Hydro changes of thirty-three (33); is that
3 correct, sir?
4 MR. WILLIE DERKSEN: That's what it shows,
5 again, yes.
6 MR. BYRON WILLIAMS: Now, again I'm not sure
7 you need to turn there, but I note from PUB-II-53 page 2 of
8 33 that part of the explanation for the increase in costs
9 between 2001 actual and 02/03 actual in IT was due, in part,
10 to transfers.

11 And I wonder if you could indicate of the
12 thirty-three (33) increase, how much is due to transfers;
13 sir?

14 MR. WILLIE DERKSEN: Could you give me that
15 reference again?

16 MR. BYRON WILLIAMS: Yes. And I apologize
17 for that. If you turn -- if we flip over into Tab 6, PUB-II-
18 53, and we -- we got to the heading under "Finance and
19 Administration Information Technology Services", we see that
20 the percentage change was from 01/02, 02/03 was 11 percent
21 and the -- it's part of that increase is due to Winnipeg
22 Hydro, part is attributed to staff transfers.

23 And I wonder if you can indicate to me how
24 much of the -- the increase of thirty-three (33) in terms of
25 changes for this department is due to transfers?

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1 MR. WILLIE DERKSEN: I'd have to undertake to
2 provide that as well.

3 MR. ROBERT MAYER: And while you're doing
4 that, I do notice also and I recall this comment about this
5 banner system in the update hearings, I think. What, if any,
6 portion of those people would have been attributed to the
7 fact that you, sort of, took over the whole banner system?

8 MR. WILLIE DERKSEN: Okay, we can do that.
9

10 --- UNDERTAKING NO. 28: To indicate how much of the
11 increase of thirty-three (33) in
12 terms of changes for Finance and
13 Administration Information
14 Technology Services is due to
15 transfers and what, if any,
16 portion of those people would
17 have been attributed to the fact
18 that you took over the banner
19 system.
20

21 MR. WILLIE DERKSEN: There's another thing
22 that's going on here and I believe Mr. Warden talked about
23 that with Mr. Peters the other day. And that is there are
24 still -- there are a number of people in the IT area that are
25 working on capital projects relating to coming up with a

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1 common CIS system as well as other related projects like
2 that.

3 So that's been the major driver for this
4 increase is those capital projects.
5

6 CONTINUED BY MR. BYRON WILLIAMS:
7 MR. BYRON WILLIAMS: Thank for that -- those
8 answers, Mr. Derksen. And I just, again on this subject, as
9 part of the undertaking, after setting this out, how many are
10 transfers, I wonder if you can provide the net increase after
11 transfers to this department and after Winnipeg Hydro?
12 MR. WILLIE DERKSEN: Yes, sir.
13 THE CHAIRPERSON: Mr. Williams, would it be
14 all right if we took a five (5) minute break?
15 MR. BYRON WILLIAMS: I'm killing you, am I,
16 Mr. Chairman. Yeah, that would be fine.
17
18 --- Upon recessing at 2:55 p.m.
19 --- Upon resuming at 3:12 p.m.
20
21 THE CHAIRPERSON: Mr. Williams, do you want to
22 recommence?
23 MR. BYRON WILLIAMS: Yes, thank you, Mr.
24 Chair, and, Members of the Panel.
25

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1 CONTINUED BY MR. BYRON WILLIAMS:
2 MR. BYRON WILLIAMS: Mr. Derksen, we -- you'll
3 be as happy as I to know that we have only four (4) more kind
4 of lines to go through.
5 The -- the next one (1) though, and it is
6 important, so I shouldn't be waxing too cynical about this.
7 Let's move under finance and administration to
8 human resources. And you can confirm for me that the 2001/02
9 actual was one hundred and one (101), to which have been
10 added five (5) EFT equivalents from Winnipeg Hydro, and
11 twenty-five (25) EFTs, in terms of Manitoba Hydro changes, is
12 that correct, sir?
13 MR. WILLIE DERKSEN: Yes, I have that, that's
14 correct.
15 MR. BYRON WILLIAMS: And if I wanted to do the
16 math, and I wonder if you'll agree with me if I -- if I did
17 the Manitoba Hydro changes of twenty-five (25), by a base of
18 the hydro actual of one-o-one (101) and the Winnipeg Hydro
19 five (5), meaning one-o-six (106), that would suggest that
20 between '01/02 actual and the '04/05 forecast, in terms of
21 Hydro changes, there's been an increase of almost 24 percent.
22 Would you agree with that number, subject to check?
23 MR. WILLIE DERKSEN: That sounds about right,
24 yes.
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(BRIEF PAUSE)

MR. BYRON WILLIAMS: And if we move -- and we're going to be jumping back and forth just on this, to Tab 7, PUB-MH-II-53, page 4 of 33. We -- Tab 6, excuse me, Mr. Mayer. Tab 6, PUB-MH-II-53, page 4 of 33.

The Human Resources heading under Finance and Admin, we see that part of this increase is due to staff transfers. And I wonder if you can indicate how much of that increase, or undertake to indicate how much of that increase is due to staff transfers, sir?

And at the same time, leaving aside transfers, what was the net increase excluding Winnipeg Hydro, of these twenty-five (25)?

MR. WILLIE DERKSEN: Well, one (1) of the issues in the way that you're asking the questions is related to the staff transfers. What we've done at HR is the increases are related to behaviour based safety, to Aboriginal recruitment, to employment equity, to including two (2) union presidents, and to filling of vacancies.

Now, some of those may be filled from transfers and in some cases those transfers will not be filled in the other departments, and in the other cases they may be filled, in that -- the other department.

So, I'm not sure, you know, if I -- if I

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1 respond literally to your question, whether I'm going to be
2 giving you the information that you're looking for.

MR. BYRON WILLIAMS: And, Mr. Derksen, perhaps -- I suggest this to you, and we had talked about this off line over the break. It might be helpful to ask -- add another column to the Interrogatory Response PUB-I-6A, netting out staff transfers. Do you think that would be of assistance in this discussion?

MR. WILLIE DERKSEN: Yes, I think we could do that. We could capture the major transfers under a column like that.

MR. BYRON WILLIAMS: Now, in terms of this specific line item, being a human resources, would we -- would that also -- that would also show the -- the net increase or would it Mr. Derksen? Leaving aside transfers.

MR. WILLIE DERKSEN: You're asking me if I gave you a new schedule with a new column in it, whether I would still have a Manitoba Hydro change that showed a net increase? Yes, it would.

MR. BYRON WILLIAMS: Onto -- going back to Tab 5, just a couple more. Under power supply, and specifically power sales and operations, I don't know if this goes to Mr. Cormie, or not. Although he looks very eager.

And again, I don't want to trench -- I do want to follow-up something that Mr. Peters asked you, but you'll

1 confirm for me that there was, operating out of a base of
2 2001/02 actual, fifty-seven (57) Manitoba Hydro increases of
3 twenty-four (24) and perhaps you'll confirm for me that, that
4 would -- twenty-four (24) divided by fifty-seven (57) would
5 amount to an increase of about 42 percent, sir?

6 MR. DAVID CORMIE: That sounds right, yes.

7 MR. BYRON WILLIAMS: And again, at page 557
8 of the transcript, Mr. Peters was asking you to account for
9 some of this increase. And I -- I think it was you, Mr.
10 Cormie, who indicated that part of that was because Manitoba
11 Hydro was no -- no longer contracting out its real time
12 trading function and -- and in fact, I think it started at
13 page 556 actually line 24, you indicated in 2001/2002
14 Manitoba Hydro had contracted out a portion of its real time
15 trading function.

16 We bought that function back into Manitoba
17 Hydro since that time and have -- are now fully providing
18 that service to Manitoba Hydro where for a period of time,
19 that had been contracted out. Did I read that correctly,
20 sir?

21 MR. DAVID CORMIE: Yes, you did.

22 MR. BYRON WILLIAMS: And I guess my question
23 is to -- is those services in terms of real time trading, my
24 understanding is that those had previously been provided
25 under contracts -- contract by MPEX, a division of Minnesota

1 Power. Is that right?

2 MR. DAVID CORMIE: That's correct.

3 MR. BYRON WILLIAMS: And I guess where -- our
4 confusion, Mr. Cormie, I'll just -- just for the Board's --
5 the Panel's reference, I'll -- I'm referring, Mr. Cormie, to
6 page 20 of the Fiftieth (50th) Annual Report. I have an
7 excerpt which I could provide, if necessary. But I'll just
8 go there. Mr. Cormie, you have that reference?

9 MR. DAVID CORMIE: Yes, I do.

10 MR. BYRON WILLIAMS: And if you see that
11 paragraph on page 20 of the Fiftieth (50th) Annual Report,
12 you'll -- you'll see that Manitoba Hydro assumed full
13 responsibility for providing real time hourly power trading
14 services in March 2001 and it discusses that the services had
15 previously been provided by MPEX.

16 And so my question to you, Mr. Cormie, is
17 whether the 2001/02 actuals had already captured the EFT's
18 associated with the -- the bringing back into service of the
19 real time trading?

20 MR. DAVID CORMIE: I -- I believe you're
21 correct, Mr. Williams. I was wrong on the date of that
22 transfer. I think it is in March 2001.

23 MR. BYRON WILLIAMS: Okay. So perhaps you

24 might be able to provide to -- so -- and again, not -- that
25 would suggest that your response to Mr. Peters might require

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1 some revision, is that correct?
2 MR. DAVID CORMIE: I think you're right, yes.
3 MR. BYRON WILLIAMS: And would you undertake
4 to do that?
5 MR. DAVID CORMIE: I will underdo -- un --
6
7 --- UNDERTAKING NO. 29: To provide a revised response to
8 Mr. Peters' questions.
9
10 CONTINUED BY MR. BYRON WILLIAMS:
11 MR. BYRON WILLIAMS: Now, I believe as well
12 at page 557, Mr. Cormie, you indicated that you're belief
13 that all twenty-four (24) additional employees under the
14 power sales and operation are related to export activities.
15 Is that correct, Sir?
16 MR. DAVID CORMIE: There was some -- have
17 been some additional staff in our hydraulic and engineering
18 operations group in the field monitoring with regard to
19 Wuskwatim and Gull and Canawappa field surveys. I believe
20 there are several individuals in our water resource manage
21 group. But the majority of the -- of the staff would be in
22 the power sales area.
23 MR. BYRON WILLIAMS: And I guess one (1) of
24 the reasons I was curious about that, and I'm -- I'm only
25 going from memory here, but when I recall our -- our

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1 discussions and your discussions with the Panel and with
2 Board counsel, during the status update hearing.
3 It seemed to me that Hydro was presenting
4 itself in the course of that Hearing as operating a kind of
5 -- with ruthless efficiency and that it was maximizing every
6 opportunity and -- and I'm wondering is the -- has the market
7 changed that much since that time that -- in terms of
8 justifying this increase, sir?
9 MR. DAVID CORMIE: Well, I think -- I think
10 what happened is that we've been facing constant change. We
11 went from being a member of MAPP to being in MISO and now
12 we're at MISO Day Two, and we've been taking on these
13 challenges with staff putting in extraordinary hours.
14 We've been neglecting some of the basic work
15 that we should be doing with regard to our customer
16 relations, focussing on specific contracts and -- and it was
17 clear that we've been under-resourced.
18 And given the magnitude of our ex-provincial

19 activities, we needed to set that right and -- and staff
20 appropriately and that's what the twenty-four (24) -- the
21 majority of the twenty-four (24) were to do, to -- to bring
22 that organization to a sustainable level.

23 And the industry has been in constant change
24 and -- and I don't believe that is over yet. In addition to
25 that, the MISO market is moving from what had been a physical

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1 market for electricity, it is now evolving into both a
2 physical market, in the -- in the real time, but as well as
3 into a financial market where we have to start trading
4 financial transmission rights. We have risk -- we have to
5 have appropriate risk management associated with that.

6 And we need to increase the number of traders
7 that we have on the trading for not just those who are
8 trading physical power but also in the financial markets.
9 Some of the numbers that are in the 2004/5 forecast have been
10 deferred because MISO Day Two has now been delayed to March
11 2000 -- March 1st, 2005.

12 And so several of the twenty-four (24)
13 positions that are shown there have gone unfilled this year.
14 I believe it's probably -- there's six (6) or seven (7)
15 individuals, they're both in the billing and in the -- in the
16 trading. And we've deferred those positions because the MISO
17 Day Two date was deferred from last year, it was December
18 1st, 2003 was the original MISO Day Two date and it's now
19 been delayed twice.

20 And the current date is March 1st, 2005. And
21 so some of those positions are unfilled -- they've gone
22 unfilled and although we've justified them and we have
23 approval for them and they're in part of our budgets, we have
24 not filled them because of -- of -- it just hasn't been
25 necessary to do that.

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1 MR. BYRON WILLIAMS: I thank you for that
2 answer. Given your comments that the industry is in a state
3 of flux, are you now confident that with the approved twenty-
4 four (24) additional positions that we shouldn't be looking
5 at many more in terms of future EFT's in this area?

6 MR. DAVID CORMIE: I believe there are
7 additional staff still required. Manitoba Hydro has
8 committed to developing wind in its resource plan and that
9 involves complex negotiations with non-utility generators.

10 We've just gone through a year of intense
11 negotiations with Bison Wind (phonetic) and we need -- and
12 that -- that -- that -- there will be -- there's staff
13 requests in for those -- for those activities.

14 We are entering into some negotiations with
15 Ontario with regard to the opportunity in Ontario and we need
16 to staff for that. And so they -- you know they -- the
17 business is still evolving and growing.

18 And in -- in not only in fields but in
19 complexity and we're trying to keep pace. I don't think it's
20 stabilized yet.

21 MR. BYRON WILLIAMS: And this may be a
22 question that's more appropriately posed to the second Panel
23 but given the -- and recognizing that the cost of service is
24 still to come, could you indicate with -- whether any of the
25 costs associated with the employees working primarily in the

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1 export field are netted out against export revenues for
2 purposes of determining net export revenues?

3 MR. DAVID CORMIE: I think that's probably
4 best left to the Cost of Service Panel.

5 MR. BYRON WILLIAMS: And we'll put Mr. Wiens
6 on notice, just that that will be a question we'll be asking
7 him in the -- in the second Panel.

8 With respect to Power, Planning and
9 Development, it appears that we're looking at a base of
10 fifty-six (56), in terms of 2001/2002 actuals, with an
11 additional Hydro changes of eleven (11), which by my
12 calculations, suggests an almost 20 percent increase in this
13 area over the period; would you accept that, subject to
14 check?

15 MR. WILLIE DERKSEN: Yes, sir.

16 MR. BYRON WILLIAMS: And some -- given that
17 we're going to -- the undertaking in terms of transfers, I
18 wonder if -- if it could be indicated in terms of this
19 specific area, how much of the increase is due to aboriginal
20 programs, or emissions trading, alternative energy and export
21 market intelligence?

22 MR. WILLIE DERKSEN: For Power, Planning and
23 Development, I believe the majority of new positions relate
24 to planning, licensing and environmental activities relating
25 to new generation.

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1 MR. BYRON WILLIAMS: I'd be familiar with that
2 to a certain degree.

3 I believe some of this is also related to
4 emissions trading; is that correct, sir?

5 MR. WILLIE DERKSEN: I'd have to check on
6 that.

7 MR. HAROLD SURMINSKI: Yes, I can confirm that
8 is the case.

9 MR. BYRON WILLIAMS: Now, my recollection from
10 the Wuskwatim hearing is that Manitoba Hydro's not actually
11 into a lot of emissions trading at this point in time, would
12 that be accurate?

13 MR. DAVID CORMIE: I believe we bought twenty
14 thousand (20,000) tons of carbon credits this year, and the
15 trading was done through the power trading office. There
16 were three (3) -- three (3) contracts purchased, and these
17 were done over the -- through the Chicago Climate Chan --
18 Exchange.

19 MR. BYRON WILLIAMS: And again, just as a note
20 perhaps to Mr. Wiens, for the second part of the --the
21 Hearing, we will be asking whether some of these costs are
22 netted out against the export revenues, for purposes of
23 determining net export revenues, as allocated in the Cost of
24 Service.

25 Finally, on the --

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1 MR. ROBERT MAYER: Excuse me, why are we
2 buying carbon credits? Well, we've heard how much carbon we
3 didn't produce, and especially how much Wuskwatim wouldn't
4 produce.

5 MR. DAVID CORMIE: Relative to the base line
6 that was set in the early 1990s, Manitoba Hydro had an
7 expectation this year that we -- with our thermal
8 generation, that we would be in -- in excess of our targets
9 and we needed to purchase the twenty thousand (20,000) tons.

10 We paid approximately a dollar per ton, so
11 there was an expenditure of about twenty thousand dollars
12 (\$20,000) to achieve our -- our goal with regard to emissions
13 this year.

14 MR. ROBERT MAYER: I would hate to think that
15 every time we talked about achieving goals, we'd achieve it
16 by purchasing them.

17

(BRIEF PAUSE)

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19
20 MR. DAVID CORMIE: Well, most -- most years,
21 Mr. Mayer, we will -- we will have a surplus of -- of
22 production from the Hydro stations, and it's in -- it was in
23 our -- it's in our best interest that this exchange for
24 carbon is -- is successful.

25 And not only did we want to part -- not only

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1 did we want to meet our goal, we also wanted to participate
2 in the exchange too, so that when we did have -- we were
3 surplus, that there was a market there, a viable market.

4 So, Manitoba Hydro was one (1) of the key
5 participants in making -- ensuring that that market was
6 successful, so that in the future we could gain the value
7 that comes from producing clean hydro power.
8 MR. ROBERT MAYER: Thank you.
9
10 CONTINUED BY MR. BYRON WILLIAMS:
11 MR. BYRON WILLIAMS: Turning finally on the
12 subject to the -- under power supply, the line, Engineering
13 Services.
14 Perhaps you could confirm that from a base of
15 2001/02 actual of a hundred and fifty-eight (158), coupled
16 with Winnipeg Hydro of -- changes of four (4), there was an
17 additional twenty-seven (27) changes in terms of Manitoba
18 Hydro changes; is that correct, sir?
19 MR. WILLIE DERKSEN: Yes, sir.
20 MR. BYRON WILLIAMS: And you'll agree with me,
21 subject to check, that that's almost a 17 percent increase
22 over 2001/02 staff levels?
23 MR. WILLIE DERKSEN: Yes, that sounds about
24 right.
25 MR. BYRON WILLIAMS: I wonder if you can turn

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1 again to Tab 6, which is the Response to PUB-MH-II-53,
2 specifically page 2 of thirty-three (33); the heading under
3 Engineering Services. And you'll see, Mr. Derksen, that
4 there's a decrease due to capital activity for new
5 generation. Do you see that, Sir?
6 MR. WILLIE DERKSEN: Yes, I do.
7 MR. BYRON WILLIAMS: And I'm wondering in
8 terms of this reduction in -- in -- from the '01/'02 actual
9 to the '02/'03 actual, whether that reduction involved also a
10 reduction in terms of EFT's?
11 MR. WILLIE DERKSEN: No, it didn't. It would
12 have involved a reduction of operating EFT's but not of total
13 EFT's.
14 MR. BYRON WILLIAMS: Now, my understanding of
15 why an increase in capital activity for new generation
16 reduces OM&A cost levels, is that these costs can be
17 capitalized. In other words, there can be an increase in
18 staff but OM&A costs would go down. Is that right, Sir?
19 MR. WILLIE DERKSEN: If staff were increased
20 for new generation, there would be a minor reduction to OM&A
21 costs because they'd be attracting some overhead when they
22 were charging to new construction.
23 MR. BYRON WILLIAMS: I'm moving on to -- to
24 the next section of our discussion and I'll be referring the
25 Hydro Panel to Tab 7, eight (8) and twenty-three (23).

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1 And I want to talk a little bit about
2 productivity without trenching to any great degree on the
3 Panel's discussion with Mr. Peters on this subject.
4 And I wonder if Hydro can confirm for me that
5 in terms of looking first at Tab 7, specifically the response
6 of CAC/MSOS Manitoba Hydro, 1-18(c). I just want to discuss
7 what this interrogatory covers first of all.
8 And I wonder if Hydro can confirm for me that
9 it provides a year over year variance analysis to explain the
10 change in total O&A costs from 2002/03 through to 2005/06.
11 Is that correct?
12 MR. WILLIE DERKSEN: Yes, it does.
13 MR. BYRON WILLIAMS: And referring you now to
14 Tab 8, being Hydro's response to CAC/MSOS Manitoba Hydro, 2-
15 13 and specifically (d). You'll confirm for me that this
16 response to a request for what specific allowances for
17 productivity improvement have been incorporated into the O&A
18 forecast; is that right, Sir?
19 MR. WILLIE DERKSEN: Yes.
20 MR. BYRON WILLIAMS: And the answer, and
21 we'll go into it in a bit more detail in a couple of minutes.
22 But it -- it basically sets out three (3) heads. Namely,
23 being a -- a -- the first one (1) being an productivity
24 factor, including the wage and salary forecast. Is that
25 correct?

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1 MR. WILLIE DERKSEN: Yes.
2 MR. BYRON WILLIAMS: The second head being
3 the general reductions that have not been allocated to
4 specific departments; is that correct?
5 MR. WILLIE DERKSEN: Yeah.
6 MR. BYRON WILLIAMS: And number three (3) is
7 cost reductions from efficiency related process of changes;
8 correct, Sir?
9 MR. WILLIE DERKSEN: Yes, that's correct.
10 MR. BYRON WILLIAMS: Now, as I understand it,
11 these figures are for the corporation as a whole, not just
12 electricity. Is that correct?
13 MR. WILLIE DERKSEN: Yes, that's correct.
14 MR. BYRON WILLIAMS: And I -- I wonder -- I
15 want to get some sense of how we might calculate the
16 projected productivity for the corporation as a whole. And
17 we'll -- you'll note, and I want to refer to the 2004/05
18 year, you'll note in terms of the productivity factor,
19 including the wage and salary forecast, it's set for 2004/05
20 at 1.83 percent; is that right?
21 MR. WILLIE DERKSEN: Yes.
22 MR. BYRON WILLIAMS: And if we flip to Tab
23 23, Mr. Derksen, which is Schedule 42 to the Hydro
24 Application, you'll see that the -- the forecast '04/'05 in
25 terms of wages, salaries and over-time is three hundred and

1 forty-seven million two hundred and eighty-seven thousand
2 (347,287,00); is that correct, sir?

3 MR. WILLIE DERKSEN: Yes.

4 MR. BYRON WILLIAMS: So, if I wanted to
5 calculate the productivity in terms of wage -- included in
6 the wage and salary forecast, would I multiply that figure of
7 approximately 347.3 million by the 1.83 percent, sir?

8 MR. WILLIE DERKSEN: No, that wouldn't be the
9 correct calculation. What this response is saying is that
10 the wage increases that were provided from 2003/04 to 2004/05
11 exceeded the amount that the budgets were allowed to increase
12 by 1.83 percent.

13 The salary figures that you've -- that are
14 shown in this schedule represent the results of all of the
15 detailed planning that goes on in the Corporation and the
16 resultant salary levels that are expected.

17 MR. BYRON WILLIAMS: And just so I understand
18 that, are you saying that -- that this final figure of 347.3
19 million approximately already has the 1.83 percent taken out
20 of it?

21 MR. WILLIE DERKSEN: I think you'd have to
22 look at it in light of that number and some of the other
23 numbers. When a department is required to reduce its costs
24 or when a division's is required to reduce its costs or isn't
25 allowed the level of dollars that will cover all of the cost

1 increases that its expected, it -- it has to re-prioritize
2 itself as to where it's going to achieve those cost
3 reductions.

4 And they may not be in the salary areas. They
5 may be in other areas as well. So, it's not as simple as
6 multiplying a number times another number to say here's what
7 the productivity result is.

8 MR. BYRON WILLIAMS: Mr. Derksen, this is the
9 one good thing about it being so late in the day. Perhaps
10 I'll reflect upon your answer to this -- to this tonight and
11 I may revisit this issue with you tomorrow.

12 Sadly, Mr. Mayer, I am -- what I'd like to do
13 is -- is have a brief discussion in terms of the OM&A costs
14 that have been attributed to the electric operations during
15 the course of this Hearing.

16 And to assist the Hydro Panel and the Board,
17 I've prepared, which we'll go through, through
18 cross-examination, Ms. Ramage, kind of, excerpts from what we
19 believe are the record. So, it's no new evidence. I just
20 want to run through it with the Panel.

21 So, with your -- I'll give you an opportunity
22 to review it and then if -- if you will so without your
23 objections, I think it would help us to move through the
24 cross-examination.
25 THE CHAIRPERSON: Ms. Ramage, while Mr.

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1 Williams is distributing that, I wonder if I could ask one
2 question, presumably of Mr. Warden.
3 I was looking at CAC's TAB 23 and reflecting
4 on it a moment and I wonder if you could just help me to make
5 sure I understand this properly. Looking at the 2005/06
6 forecast, I get \$430 million dollars of labour costs and \$136
7 million dollars of total type expenditures which comes to
8 five, sixty-six (566).
9 From that I subtract the amount that's being
10 allocated to Centra which, for sake of argument, say it's
11 fifty-six (56) just to keep the rounding even which would
12 leave me with a total cost of \$510 million dollars.
13 Of that \$510 million dollars, if I'm correct,
14 this is what I want to check, \$200 million dollars have
15 either been deferred or capitalized; is that correct?
16 In other words, of \$510 million dollars of
17 electrical expenses of the nature of labour and just general
18 expenditures categories of 510 million, \$200 million dollars
19 has either been set aside as construction in progress or --
20 or a deferred cost; is that correct? I'm just trying to
21 understand this.
22 MR. VINCE WARDEN: Yes. I'd agree with your
23 numbers. Those are correct.
24 THE CHAIRPERSON: Thanks. I'll leave it at
25 that for now. Mr. Williams...?

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1 CONTINUED BY MR. BYRON WILLIAMS:
2 MR. BYRON WILLIAMS: Yes, I'm just waiting
3 for this to be -- to be distributed and, for the benefit of
4 Hydro, I think I understand why there are -- the different
5 figures appear but what I'm going to do, and for the Panel,
6 is go through these figures and then seek an explanation at
7 the end.
8 And I wonder if we could turn first of all to
9 Tab 22 of the CAC/OM&A Book of References.
10 And we'll see that the operating and
11 administrative costs attributable to electric operations, the
12 figure for the 2001/02 actual is two hundred (200) -- is
13 approximately 242.2 million, is that correct?
14 MR. VINCE WARDEN: Yes, that's correct.
15 MR. BYRON WILLIAMS: And if we move over to

16 the 2002/03 actuals, we'll see that the figure is
17 approximately 263 million, correct?
18 MR. VINCE WARDEN: Correct.
19 MR. BYRON WILLIAMS: Now, if you can turn to
20 Tab 13, which is an excerpt from the Manitoba Hydro Electric
21 Board, 52nd Annual Report, or the 2003 Annual Report. You'll
22 confirm for me that the -- in -- under the expenses operating
23 and administration line, the results for 2002 are recorded as
24 248 million, is that correct, sir?
25 MR. VINCE WARDEN: Yes, and two seventy-two

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1 (272) for 2002/03.
2 MR. BYRON WILLIAMS: Thank you. And now to
3 Tab 9, which is the Response to CAC/MSOS-MH-II-50, and I'm
4 referring to, first of all, page 2 of 3. Could you confirm
5 for me that the reported 2001/02 actuals for OM&A, are 242.2
6 million, approximately, and perhaps you could go to the next
7 page and confirm that for in this Response, it is -- it's 263
8 million for 2002/03 actuals, is that correct?
9 MR. VINCE WARDEN: Yes.
10 MR. BYRON WILLIAMS: Flip over one (1) -- one
11 (1) tab, if you would, Mr. Warden, and thank you for your
12 assistance. We'll see the Response to PUB-MH-I-46, shows
13 that the actuals for the year ended March 2002, is 248
14 million and for the year -- the actuals for the year ended
15 March 2003, is 270 million, is that correct, sir?
16 MR. VINCE WARDEN: Yes.
17 MR. BYRON WILLIAMS: And flipping over to Tab
18 11, which is the response to CAC/MSOS-MH-I-15, page 2 of 3,
19 we'll see that the actual results reported for the year ended
20 March 31st, 2002, are 248 million, is that correct?
21 MR. VINCE WARDEN: Yes.
22 MR. BYRON WILLIAMS: And -- and if you would
23 flip over one (1) more tab to Tab 12, the Response to
24 CAC/MSOS-MH-I-16, you'll see that the actual of page 2 of 3,
25 you'll agree with me that the actual 2003 results are -- for

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1 O&A are 272 million, correct, sir?
2 MR. VINCE WARDEN: Correct.
3 MR. BYRON WILLIAMS: And if we -- just a
4 couple more. If we flip back to Tab 7, you'll see from the
5 Response to CAC/MSOS-MH-I-18(C), that the actual OM&A results
6 reported, are 263 million, is that correct, sir?
7 MR. VINCE WARDEN: Yes, that's correct.
8 MR. BYRON WILLIAMS: And if we turn to Tab 24,
9 we'll see that this is an excerpt from the Manitoba Hydro
10 Electric Board 51st Annual Report, for the year ended March

11 31st, 2002, and the OM&A reported in this Annual Report is
12 258 million, is that correct, sir?

13 MR. VINCE WARDEN: Two fifty-eight (258) for
14 '01/'02, yes.

15 MR. BYRON WILLIAMS: And, Mr. Warden, I'll get
16 to the -- what I understand to be the reasons for these
17 figures, in just a second. But you've hopefully been able to
18 kind of cross-check the numbers I've been sharing with you,
19 with the little table I've presented.

20 I wonder if you'd accept, subject to check,
21 that this table reported OM&A costs is an accurate reflection
22 of the discussion we've just had, sir? In -- in the sense of
23 the actual -- or the numbers that I've reported?

24 And I'll get to the explanation in just a
25 second, sir.

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1 MR. VINCE WARDEN: I'll accept that, yes.

2 MR. BYRON WILLIAMS: And just -- when we look
3 at that table, if we look at the results for '02/'03, we see
4 a -- a range in the reported OM&A between 263 million and 272
5 million. Would that be correct, Sir?

6 MR. VINCE WARDEN: Yes, that's fair.

7 MR. BYRON WILLIAMS: And if we go one (1)
8 column to the left, and looking at the reported OM&A costs
9 for 2001/02, we'll see that the range is between 242.2
10 million and 258 million; is that correct?

11 MR. VINCE WARDEN: Yes.

12 MR. BYRON WILLIAMS: Now, I'd like to focus
13 on the -- first of all, on the 2002/03 OM&A costs. And, as I
14 understand it, the likely reason for the difference in the
15 values for 2002/03 OM&A, in the main application, which is
16 263 million versus the IR responses to PUB 146 and CAC/MSOS
17 116, is -- which are 272 million is -- is -- I understand it,
18 the likely reason for that is due to how the O -- OM&A was
19 allocated to Centra Gas as a result of the PUB's Gas Decision
20 last year.

21 MR. VINCE WARDEN: No, no, it's all due to
22 the subs actually -- the way the subs have been reported.

23 It gets a little bit complicated but really
24 the difference between the two seventy-two (272) and the two
25 sixty-three (263); the \$9 million dollars is the costs

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1 associated with the subsidiaries.

2 And likewise, the difference between the two
3 forty-eight (248) and the two forty-two (242); the \$6 million
4 dollars, it also attributable to the -- to the subs.

5 MR. BYRON WILLIAMS: We're -- we're going to

6 do this one (1) piece at a time, Mr. Warden, just so I don't
7 become -- no, this is great, but, just so I don't become too
8 confused. So --

9 MR. VINCE WARDEN: Sure

10 MR. BYRON WILLIAMS: -- in terms of the terms
11 of the difference between the two sixty-three (263) and the
12 two seventy-two (272), it's due to the calculation of the
13 subsidiaries. So, the higher two hundred and seventy-two
14 (272) figure would reflect the OM&A costs for the
15 subsidiaries; is that right?

16 MR. VINCE WARDEN: That's right. The \$272
17 million dollar does include \$9 million dollars for the
18 subsidiaries.

19 So, if we're looking at electric operations
20 only, which in more recent submissions I think we've tended
21 to do, we've -- we've deducted out the subsidiaries.

22 At one (1) point, the subsidiaries were not a
23 really significant cost and we didn't -- we just simply
24 reported them included with our OM&A. However, they have
25 become up in the range of nine (9), ten (10), \$11 million

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1 dollars, so, we're now deducting those out.

2 So, yes, that is the answer to your question.
3 The difference between the two seventy-two (272), two sixty-
4 three (263), \$9 million dollars is subsidiaries.

5 MR. BYRON WILLIAMS: Could you assist me as
6 well; when I look at the various interrogatory responses
7 against staying with the '02/'03 years, the responses to
8 CAC/MSOS 250, as well as the responses to CAC/MSOS 1-18, show
9 263 million.

10 Whereas, the responses to CAC/MSOS 1-16 and --
11 and the response to PUB 146, shows 272 million. So, why
12 would those different figures be used in those calculations?

13 MR. VINCE WARDEN: Well, they -- they should
14 be consistent but as I've just explained, the reason for the
15 difference is the inclusion in one (1) case of the
16 subsidiaries in the total number and the exclusion in the
17 other.

18 MR. BYRON WILLIAMS: So, when the Corporation
19 is calculating it's OM&A target for the purposes of its
20 strategic plan, the 2003 Corporate Strat -- Strategic Plan,
21 they would use a definition of the OM&A which is -- which
22 excludes the subsidiaries; would that be correct, sir?

23 MR. VINCE WARDEN: That is correct, yes.

24 MR. BYRON WILLIAMS: So the -- the definition
25 and the calculation would be based on the 263 million figure,

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1 not the 272 million figure.

2 MR. VINCE WARDEN: Correct.

3 MR. BYRON WILLIAMS: And you generously
4 jumped the gun in terms of the '01/'02 figures and you've
5 explained that, again, the difference between the 242.2
6 million and the 248 million is due again to the subsidiaries;
7 is that correct?

8 MR. VINCE WARDEN: That is correct, yes.

9 MR. BYRON WILLIAMS: And if I looked for the
10 -- when I look to the figure of -- in the 2002 Annual Report
11 of 258 million, and if I'm looking for an explanation of why
12 that is a different figure than the 248 million, would that
13 be due to the reclassification of payroll taxes?

14 MR. VINCE WARDEN: Exactly, that's right, yes.

15 MR. BYRON WILLIAMS: So when one looks back in
16 time at the 2002 Corporate Strategic Plan, and the OM&A
17 target that was set out there, would that be based upon the
18 figure of 248 million, or would it be based upon the figure
19 of 258 million, which was prior to the reclassification of
20 payroll taxes?

21 MR. VINCE WARDEN: Well, the -- the correct
22 number for comparative purposes would be the \$248 million
23 number.

24 MR. BYRON WILLIAMS: And that was the
25 definition -- and that was the basis upon which that

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1 definition was used?

2 MR. VINCE WARDEN: I should just clarify that,
3 it's the two hundred and forty-eight (248) number, minus the
4 subsidiaries of 6 million, which is \$242 million.

5 MR. BYRON WILLIAMS: Thank you, and that was
6 my error, sir.

7 In your discussion with Mr. Peters, and I
8 think it appears at page 561 and 562 of the transcripts, you
9 indicated that Manitoba Hydro is now tracking a new number,
10 which is five hundred and eighty-four dollars (\$584) per
11 customer, do you remember that discussion, Mr. Warden?

12 MR. VINCE WARDEN: Yes.

13 MR. BYRON WILLIAMS: Now, what year does that
14 figure of five hundred and forty-four (544) -- or five
15 hundred and eighty-four dollars (\$584) per customer relate
16 to, is that the '04/'05 year, sir?

17 MR. VINCE WARDEN: It is the '04/'05 year,
18 yes.

19 MR. BYRON WILLIAMS: And can you indicate to
20 me in -- in coming to that target figure, what was the number
21 of customers that you assumed that Manitoba Hydro would have
22 for the '04/'05 year?

23 MR. VINCE WARDEN: I believe it's
24 approximately five hundred and ten thousand (510,000), we'll
25 just perhaps double check that, but it's around that number.

1 I'm just informed it's five (5) -- five-o-six-eight-nine-
2 three (506,893) is the exact number.

3 MR. BYRON WILLIAMS: And that would be the
4 equivalent of your Response to PUB-MH-I-46, is that right?

5 MR. VINCE WARDEN: That's correct, yes.

6 MR. BYRON WILLIAMS: Could you also indicate,
7 for the purposes of that calculation, what was the O&M budget
8 used?

9 MR. VINCE WARDEN: The number would be -- the
10 gross number is three-o-seven (307), minus the subsidiary
11 number of eleven (11), to come down to a net number of two
12 ninety (290) -- two ninety-six (296).

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: So, the calculation, just
17 so I'm clear, of this figure, was -- was based upon 296
18 million, divided by the number of customers of five hundred
19 and six eight-nine-three (506,893), is that correct?

20 MR. VINCE WARDEN: Yes, that's correct.

21 MR. BYRON WILLIAMS: And you believe that this
22 target is an attainable target for the 2004/05, sir?

23 MR. VINCE WARDEN: I do.

24

25 (BRIEF PAUSE)

1 MR. BYRON WILLIAMS: Mr. Chairman, I have
2 about one (1) small area of questioning in this general area,
3 that I think will be helpful to continue with, and I might go
4 a few minutes past four o'clock, but with your permission,
5 I'd like to do so.

6 THE CHAIRPERSON: That's fine. One (1) thing
7 though, I imagine you should give an exhibit number to the
8 schedule that you've passed out, CAC/MSOS-4, report OM&A
9 costs, which was the basis for your line of questioning that.

10 Please proceed, Mr. Williams.

11 MR. BYRON WILLIAMS: And thank you for that
12 reminder, MR. Chairman.

13

14 --- EXHIBIT NO. CAC/MSOS-26: Report of OM&A Costs.

15

16 CONTINUED BY MR. BYRON WILLIAMS:

17 MR. BYRON WILLIAMS: Mr. Warden, I wonder if
18 you could have in hand a couple of documents, or one (1) is
19 your Hydro's Response to -- well, Hydro's Manitoba Hydro
20 Undertaking Number 19, which is marked as Hydro Exhibit
21 Number 24 and I don't -- I don't know if you need it but I
22 will be referring to page 529 of the -- 528 and 529 of the
23 transcript which would be day three from last week; do you

24 have those, sir?

25 MR. VINCE WARDEN: If we can just take a

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1 moment.

2

3

(BRIEF PAUSE)

4

5 MR. BYRON WILLIAMS: Now, at page 528, Mr.
6 Warden, you indicated that, and I'm referring to lines 10
7 through 12, looking at electricity alone we came in at 283.4
8 million which was 20 million -- \$20.2 million lower than what
9 our forecast was; is that correct?

10 MR. VINCE WARDEN: That is what I said, yes.

11 MR. BYRON WILLIAMS: And this was about 20
12 million less than the value used in Volume I of Manitoba
13 Hydro's Application; is that correct, sir?

14 MR. VINCE WARDEN: For the fiscal year
15 '03/'04 which, of course, wasn't the test year but -- but,
16 yes, that's correct.

17 MR. BYRON WILLIAMS: And of these savings, if
18 I understand Hydro Exhibit Number 24 correctly, part of this
19 was related to productivity and part was related to pension
20 and the pension amount was 10.9 million; is that correct,
21 sir?

22 MR. VINCE WARDEN: Yes, that's correct.

23 MR. BYRON WILLIAMS: Now, in your testimony
24 at -- before I go on, in terms of this amount being the two
25 figures, the 283.4 that you indicated at page 528 of the --

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1 at 528 of the transcript and the original application in
2 Volume I, are there any definitional changes in O&A for
3 2003/04 that would mean that this number is not comparable to
4 the three-oh-three (303) or so used in the original filing,
5 sir?

6 MR. VINCE WARDEN: No, I don't believe there
7 are any definitional changes in '03/'04.

8 MR. BYRON WILLIAMS: If I move on to page 537
9 of the transcript I note at this you're talking about that
10 there were contingency amounts built into the President's
11 budget. And I wonder if any of the 20 million figure in
12 terms of reductions in actual O&A costs for 2003/04 were part
13 of deferred spending in the contingency budget?

14 MR. VINCE WARDEN: I would have to double
15 check that to confirm that there were -- there were dollars
16 still left in the President's account at year-end. I don't
17 believe so but I could check that if you like?

18 MR. BYRON WILLIAMS: So you would undertake

19 to do that for me, sir?
20 MR. VINCE WARDEN: Yes, I'll do that.
21
22 --- UNDERTAKING NO. 30: To indicate whether any of the 20
23 million figure in terms of
24 reductions in actual O&A costs for
25 2003/04 were part of deferred

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1 spending in the contingency
2 budget.
3
4 MR. BYRON WILLIAMS: Could you also, and
5 perhaps it's already in the record and I couldn't locate it,
6 but could you also indicate how much contingency was built
7 into the initial budget in terms of the '03/'04 year in terms
8 of -- the President's contingency.
9 MR. VINCE WARDEN: Yes, we'll do that as
10 well.
11
12 --- UNDERTAKING NO. 31: To provide details on how much
13 contingency was built into the
14 initial budget in terms of the
15 '03/'04 year in terms of the
16 President's contingency.
17
18 MR. BYRON WILLIAMS: Now, I don't have this
19 in my handy dandy book of references, Mr. Warden, but I note
20 from your -- Manitoba Hydro's response to MIPUG/MH-I-7 that
21 you outlined the specific actions initiated by Hydro in
22 September 2003 to reduce costs; perhaps we could just have
23 that document near at hand, sir?
24
25 (BRIEF PAUSE)

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1 MR. BOB PETERS: Mr. Williams, if you could
2 just confirm to me that you are asking for the MIPUG Manitoba
3 Hydro, First Round, Question 7A?
4 MR. BYRON WILLIAMS: Thank you very much, Mr.
5 Peters, that's correct.
6
7 CONTINUED BY MR. BYRON WILLIAMS:
8 MR. BYRON WILLIAMS: Now, Mr. Warden, as I
9 understand this document, it outlines the specific actions
10 taken by Hydro in September 2003 to reduce costs.
11 And if I look at this document, would I be
12 correct in concluding that of the \$36 million in potential
13 savings, about \$30 million were attributable to favourable

14 foreign exchange and interest rates on financing costs, and
15 the remainder being \$6 million, was devoted to OM&A actions?
16 Would that be correct, sir?

17 MR. VINCE WARDEN: Yes, I agree with that.

18 MR. BYRON WILLIAMS: And those actions
19 included actions such as delay in filling vacancies in staff
20 positions, reduce overtime by 10 percent, reduce travel by 10
21 percent, reduce building and property services by 10 percent
22 and reduce office and administration expenses by 10 percent.
23 Is that right, sir?

24 MR. VINCE WARDEN: Yes.

25 MR. BYRON WILLIAMS: Now, would you agree

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1 with me that these were temporary measures to -- to respond
2 to a -- a crisis rather than long term productivity savings,
3 sir?

4 MR. VINCE WARDEN: Well, in terms of our
5 overall OM&A budget for '03/'04, they're relatively small as
6 you can see. Which, I think, makes the point that there
7 isn't a lot of room to manoeuvre in our offering and
8 administrative budgets.

9 So, although there were some things that we
10 did undertake to do, because our budgets are -- are very
11 tight as -- as it is, there wasn't a lot of room to -- to
12 reduce further.

13 Is there the potential to -- to maintain that
14 into the future? We'll certainly do our best to do that as
15 well.

16 MR. BYRON WILLIAMS: Are these actions
17 reflected in your forecast for '04/'05 or '05/'06? These
18 specific actions? These \$6 million, sir?

19
20 (BRIEF PAUSE)

21
22 MR. VINCE WARDEN: With respect to '04/'05,
23 no, they would not. Those amounts -- specific amounts would
24 not be included in there.

25 MR. BYRON WILLIAMS: So they were short term

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1 actions to respond to the crisis. Is that correct, Sir?

2 MR. VINCE WARDEN: That is correct, yes.

3 MR. BYRON WILLIAMS: So, of that \$20 million
4 in -- in terms of reductions of actual O&A costs for 2003/04,
5 we've got about \$10.9 million which relate to pension
6 benefits and would I be correct -- and -- and we have another
7 \$6 million related to these short term actions which gets us
8 pretty close to \$17 million, sir. Would that be right?

9 MR. VINCE WARDEN: Yes.
10 MR. BYRON WILLIAMS: Does that leave us,
11 subject to your answer, in terms of contingency amounts, in
12 the President's budget, with about \$3 million in additional
13 productivity savings that you were able to identify in
14 '03/'04?
15 MR. VINCE WARDEN: That would be about right,
16 yes.
17 MR. BYRON WILLIAMS: And those additional
18 savings, have they been built into the current forecast for
19 '04/'06, or for -- for '04/'05 and '05/'06, sir?
20 MR. VINCE WARDEN: No.
21 MR. BYRON WILLIAMS: And Mr. Derksen, you may
22 have answered this before, and I may have failed to -- to
23 grasp this but is the pension performance improvement
24 something that will be reflected in subsequent years or -- or
25 well -- as well? Or is that a -- a kind of one (1) time only

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1 event?
2 MR. WILLIE DERKSEN: Approximately half of
3 the savings are expected to carry forward. The other costs
4 will continue.
5 MR. BYRON WILLIAMS: By half of the savings,
6 do you mean one (1) half of the 10.9 million, sir?
7 MR. WILLIE DERKSEN: Yes, that's what I was
8 referring to.
9 MR. BYRON WILLIAMS: And is that one (1) half
10 of the 10.9 million reflected in the current forecasts for
11 '04/'05 and '05/'06, sir?
12 MR. WILLIE DERKSEN: It's not in the numbers
13 that were in IFF-03 but in Exhibit 24, that has been
14 considered with this updated forecast.
15 MR. BYRON WILLIAMS: Mr. Chairman, I think
16 that's a nice spot for me to -- to end for the -- the day.
17 Thank you, to Manitoba Hydro.
18 THE CHAIRPERSON: Thank you Mr. Williams.
19 We'll see the rest of you tomorrow.
20 Tomorrow just to remind everyone we were
21 talking about having just one (1) hour for lunch and then
22 breaking at 3:00, given the civic election because --
23
24 --- Upon Adjourning at 4:08 p.m.
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5 Certified Correct,
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11 Carol Wilkinson, Ms.
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